Commercial Real Estate | Ideas / Issues / Trends

Development®

SPRING 2025

Office Market Outlook

Reasons for Cautious Optimism

INSIDE

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T-12 Through Q3 2024

7,298	$43.2B	$12.3B
Closed Transactions	Value of Closed Transactions	Value of Listings

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SPRING 2025 / VOLUME 56 NO. 1

FEATURES

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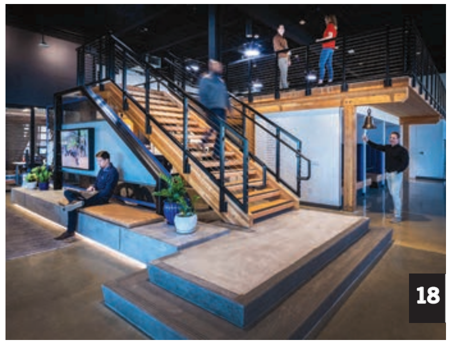

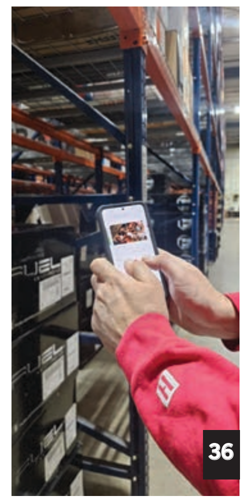

On the cover: A rendering of Atlanta's Stratus Midtown office tower. Duda | Paine Architects

NAIOP COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

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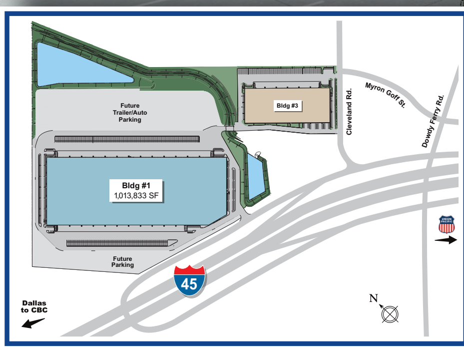
PointSouth
Logistics & Commerce Centre

FEATURED PROPERTY
1,013,833 SF (DIVISIBLE)

READY FOR OCCUPANCY

950 N. Interstate Highway 45, Hutchins, TX
(DFW Metro)



FOR LEASE

The property offers immediate access and visibility to I-45, I-20, and a nearby FedEx Ground facility. It is also in close proximity to I-35 and the Union Pacific Intermodal, providing excellent connectivity. Additional benefits include expandable trailer and automobile parking for enhanced logistics capabilities.

PROPERTY FEATURES

- 40' Clear Height
- 165 Dock High Doors
- 271 Auto Parking (Expandable)
- 182 Trailer Parking (Expandable)

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MAJESTIC REALTY

A Note From the Editor

INSIDE AND IN BRIEF

Innovating and Adjusting in an Evolving Market

In this edition, Development dives into the redevelopment of a former golf course and office park in Charlotte, North Carolina, now poised to become a vibrant mixed-use community. This ambitious project exemplifies the innovative approaches developers are taking to reimagine underutilized spaces.

The office market continues to evolve, and this issue includes a timely overview of the sector, examining how changing work trends are influencing leasing, design and demand.

In addition, Ryan Companies offers a behind-the-scenes look at its growing footprint in the data center market — a critical asset class in today's digital economy.

We hope you enjoy the new design and layout of the magazine. Let us know!

Stay informed,
Jennifer LeFurgy, Ph.D.
Editor-in-Chief

Jennifer LeFurgy

Future NAIOP Events

I.CON West, March 26-27, 2025, Los Angeles

National Forums Symposium, May 13-15, 2025, New Orleans

I.CON East, June 4-5, 2025, Jersey City, New Jersey

CRE.Converge, Sept. 8-10, 2025, Toronto

Most Popular From Winter 2024-2025

1. **"AI's Growing Impact on Commercial Real Estate"** (naiop.org/25aiimpact)
2. **"Ten Challenges Facing Commercial Real Estate in 2025"** (naiop.org/25tenchallenges)
3. **"An Overview of State Data Center-related Tax Incentives"** (naiop.org/25datacentertax)
4. **"A Different Approach to Mixed Use"** (naiop.org/25mxapproach)
5. **"The Silver Tsunami and Investment Opportunity in Senior Housing"** (naiop.org/25silver)

In Brief

Notable facts and figures on the state of the commercial real estate industry, culled from media reports and other sources.

Industrial

291 Million The number of square feet of new industrial property under construction at the end of 2024, representing a 36% decline from the year prior, according to data from Cushman & Wakefield. Bisnow reported the development pipeline of industrial properties is at its lowest level since 2018, with approximately one-third of new construction being build-to-suit projects that will come online occupied.

Office

28 The record number of new leases signed at rents above $200 per square foot in 2024 in Manhattan's high-end office market, according to the New York Post and based on data from JLL, which also noted that 212 leases were signed for at least $100 per square foot. "The larger, $100-plus pinnacle class of 2024 accounted for an unprecedented 9.8 million square feet of space, as measured by JLL," topping the previous high of 8.8 million square feet in 2019.

2027 The year by which vacancy in prime office buildings is estimated to return to its pre-pandemic rate of 8.2%, according to CBRE's U.S. Real Estate Market Outlook 2025.

Technology

84% The percentage of respondents to Ferguson Partners' Artificial Intelligence Pulse Survey who said they are actively experimenting with or implementing AI in the real estate industry. Thirty-three real estate investment firms representing both private and public organizations, and varying in size, investment strategy and location, participated in the survey. "When asked to list the primary challenges in AI adoption, the lack of understanding of AI applications (67%) along with difficulty in demonstrating clear use cases or ROI (58%) were the most common responses from survey participants."

Retail

$10 Billion The approximate worth of U.S. open-air retail portfolios expected to change hands this year based on what CBRE sees in the pipeline and as reported by The Wall Street Journal. Blackstone spent $4 billion on Retail Opportunity Investments, an owner of shopping centers, this past November. The deal, scheduled to close in the first quarter of 2025, was "Blackstone's biggest bet on U.S. retail since 2011," according to WSJ.

Data Centers

1.8 The number of gigawatts a hyperscale-focused data center campus near Dallas could scale up to at full build-out. Provident and AREP's PowerHouse Data Centers recently formed a joint venture to build the 768-acre campus, which would be one of the largest data center complexes in the United States. The multiphase project, scheduled to begin construction in the second quarter of 2025, will initially leverage about 500 megawatts of committed power.

Housing

1.1 Million The average number of new units per year that will need to be built to meet U.S. housing demand from 2025-2035, according to projections from the Joint Center for Housing Studies of Harvard University. That is a drop from the current rate of 1.4 million units per year, resulting from a slowdown in household growth. The demand for new construction is expected to further decrease to 800,000 units per year in 2035-2045.

Multifamily

11.4% Per CoStar, the vacancy rate in the United States for high-end multifamily apartment units, which command average monthly rents of $2,139. That is double the vacancy rate for more affordable properties. The Wall Street Journal reported that in the last quarter of 2024, "only 6,700 units with average monthly rents of $1,332 were under construction nationwide, compared with close to half a million higher-end apartments, based on CoStar data." ■

Will Construction Thrive or Dive in 2025?

An annual outlook survey suggests that contractors are cautiously optimistic about current-year prospects.

By Ken Simonson, AGC

Construction contractors began 2025 with a mix of optimism and concern. Meanwhile, uncertainty about a wide range of policies affecting the industry has made the outlook even foggier.

In an annual outlook survey conducted by the Associated General Contractors of America (AGC), more than 1,100 contractors provided their views about whether the dollar value of projects available to bid on would be higher or lower in 2025 than in 2024. Responses were sent from just after Election Day until shortly before the Federal Open Market Committee met in mid-December. At that meeting, members voted to lower their short-term interest rate target but signaled they might reduce rates less often in 2025 than had previously been expected.

AGC reported contractors' outlook for 17 types of projects by measuring the net reading — the difference between the percentage of respondents who expect opportunities to increase minus the percentage who expect it to shrink. Contractors expressed the highest degree of optimism regarding data centers, with a net positive reading of 42 percentage points. Their bullishness about that segment increased by 22 points from the prior year's survey.

Respondents were also optimistic about the prospects for several categories of infrastructure, as well as power and manufacturing plants. Among more commercially focused segments, contractors were most optimistic about health care projects other than hospitals, such as clinics and medical offices. The net reading for these projects climbed to 27 percentage points from 22 a year earlier.

Respondents were moderately upbeat about warehouse construction, with a net reading of 14 points, up from 10 in the 2024 survey, and multifamily residential building, with a net of 12, compared to 4 a year before. Their expectation for lodging construction shifted from a negative 3 points in 2024 to a positive 7 points.

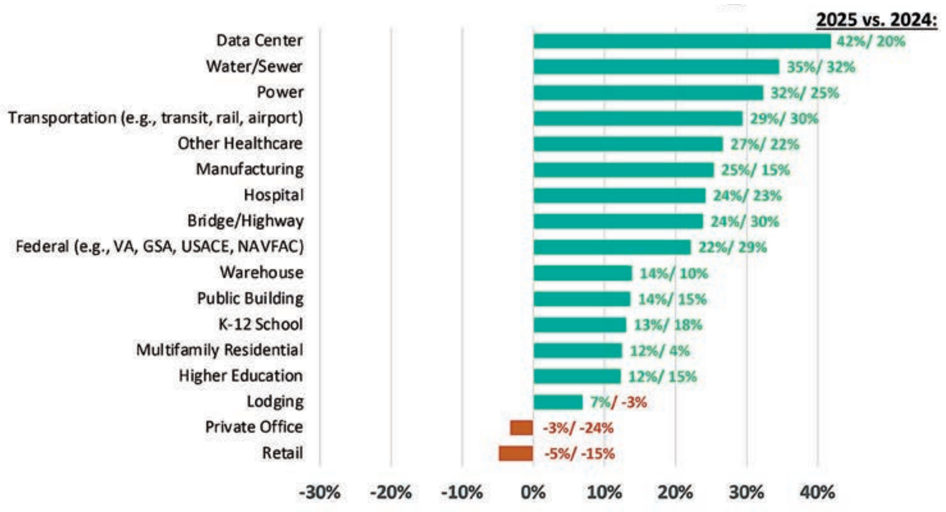
The outlook for two categories remained negative but much less so than in 2024. The net reading for private office construction rose from -24 points in 2024 to -3 points, while the net for retail increased from -15 to -5.

Whether these expectations are ultimately realized depends in part on how federal policies unfold regarding immigration, tariffs, taxes, spending and regulations. Construction has more at stake than many sectors with respect to each of these policy areas.

The most disruptive changes to the construction outlook would occur with a tightening of immigration, especially if the Trump administration carries out "mass deportations." An analysis of data from the Census Bureau's American Community Survey indicates that roughly one-third of construction craft workers in 2023 were foreign-born. Even if deportation efforts are limited to

Net* % Who Expect Value of Projects to be Higher/Lower Than in Previous Year

*Net = % expecting higher value - % expecting lower value than in previous year



Source: ACG 2025 Outlook Survey; 1,109 total respondents

Contractors expressed the highest degree of optimism regarding data centers, with a net positive reading of 42 percentage points. Their bullishness about that segment increased by 22 points from the prior year's survey.

immigrants lacking permanent legal status, past episodes have shown that even legal immigrants often react by avoiding jobsites that may be raided. Such a response would greatly worsen the construction industry's ongoing challenge of finding qualified workers.

Tariffs would potentially drive up the cost of lumber, steel, aluminum, and a host of components, parts and machinery used in construction or installed in structures. Moreover, tariffs are likely to trigger retaliatory actions that would hit demand for many processing, manufacturing and logistics structures.

Many contractors would welcome the extension of some tax reductions that were enacted in 2017 and are due to expire at year's end. However, to hold down the revenue loss from these cuts, Congress might end a range of tax incentives that have boosted demand for construction of renewable energy and advanced manufacturing facilities. In addition, some funding for infrastructure, power and manufacturing construction may be scaled back to offset the cost of tax cuts or new spending initiatives.

While the Trump administration seems certain to propose fewer new regulations that limit construction or make it costlier, the repeal of existing rules could be time-consuming and is not assured.

In short, contractors have generally high hopes for 2025 but also reason to be cautious in their optimism. ■

Ken Simonson is the chief economist with the Associated General Contractors of America. Contact him at ken.simonson@agc.org.

Cold Storage, Hot Market

While demand for modern cold storage facilities is growing, existing supply is limited.

By Cliff Booth, Westmount Realty Capital

Cold storage, a niche but rapidly growing segment of industrial real estate, is attracting attention from institutional investors, REITs and private equity firms. The demand for temperature-controlled space is due to several factors: the rise of grocery delivery services and prepackaged meals, an expanding preference for fresh produce, and the need to store temperature-sensitive pharmaceuticals.

These reasons, combined with the traditional demands of the cold supply chain, have put pressure on existing infrastructure. Aging cold storage facilities struggle to meet modern needs, lacking the efficiency, capacity and technology required for today's complex supply chains. This gap presents an opportunity for developers to deliver modern solutions, creating significant value for investors seeking long-term returns. However, the high cost of building, managing and maintaining these facilities has been a barrier to entry for most property owners and their investors. Cold storage facilities can cost four times as much per square foot as a traditional warehouse.

Westmount Realty Capital, a private Dallas-based owner, developer and manager of commercial real estate, has spent over 40 years identifying high-potential opportunities in the market. This experience has led the company to focus on cold storage — a sector brimming with potential for growth and value creation.

Westmount Realty Capital is working on a new cold storage infill development project that is scheduled to break ground later this year in the Dallas-Fort Worth market.

Courtesy of Westmount Realty Capital

Westmount's track record includes two cold storage warehouses totaling over 2.2 million square feet with national tenants: Garland Logistics Park, located in one of Dallas-Fort Worth's largest industrial submarkets, and Logistic Pointe in Charlotte, North Carolina.

Key Drivers of Investment Opportunities

Even during economic downturns, demand for cold storage has remained steady. This resilience highlights its unique appeal as an investment option with the potential for healthy returns. Cold storage represents stability and reliability — a combination increasingly valued in today's uncertain markets. In Westmount's experience, operations in cold storage facilities are uniquely dependent on the building's performance to support current and future product demands. The modern class of cold storage facilities are far denser than the legacy buildings that offer less product load per square foot, and they are flexible enough to support varied environments.

Key trends driving the cold storage sector include:

Technological advancements: Advancements in building envelope components and design are allowing for more efficient

New and Noteworthy

817,500 sq. ft.

Brinkmann Constructors, in partnership with **United Properties**, broke ground on **Aero 70**, two **speculative warehouses** on a 169-acre site in **Aurora, Colorado**. Spanning 817,500 square feet total, the project also includes over-lot grading and pad preparation for two future buildings, as well as associated private site civil infrastructure. Additionally, Brinkmann will build nearly two miles of public off-site infrastructure, including roads and utilities, to connect the site to the city's existing systems.

575,900 sq. ft.

CRG, in a joint venture with **PCCP**, is developing **The Cubes at Alpha**, a **Class A industrial park** in **Alpha, New Jersey**, comprising two warehouses totaling 575,900 square feet. The 37-acre site offers immediate access to Interstate 78 and will accommodate a variety of users, including e-commerce, distribution, third-party logistics and manufacturing companies. The two single-side-load buildings will be 270,900 square feet and 305,000 square feet, respectively. Each will offer 36-foot clear heights, wide column spacing, ESFR sprinkler systems, deep truck courts, and extensive trailer stalls and storage. **Clayco** is the design-builder for the project, and **Lamar Johnson Collaborative** is the architect.

519,792 sq. ft.

Red Rock Developments recently completed construction of its second **speculative distribution facility** in **Sandy Run Industrial Park**. The 519,792-square-foot, cross-dock warehouse is located along Interstate 26 in Calhoun County, a rapidly growing industrial submarket of **Columbia, South Carolina**. The building is expandable to 1,161,888 square feet and is the only available building in the central South Carolina region with a 40-foot clear height. The site allows for multiple building configurations for future expansion. The Class A building is located near an Amazon distribution center, Nephron Pharmaceuticals, a UPS air and ground hub, and Columbia Metropolitan Airport.

Aging cold storage facilities struggle to meet modern needs, lacking the efficiency, capacity and technology required for today's complex supply chains.

refrigeration systems by stabilizing and decreasing load. Working in concert, the envelope and modern refrigeration systems support building temperatures reliably by using traditional ammonia or with advanced systems that use carbon dioxide or artificial refrigerants. Tenants value these efficiencies because they improve product stability and lower utility expenses. That is increasingly important as prices for logistics operations continue to climb.

Efficiency: Safely storing perishable goods requires highly specialized equipment and skilled workers on-site to ensure the warehouse stays at an optimal temperature 24/7. Given the high energy demands of cold storage, investors are incorporating renewable energy solutions such as solar panels and geothermal systems. Facilities should be close to the supporting workforce and the product destination, thus decreasing the miles tenants need to drive in their operations.

Increased capacity: To meet supply chain demands, modern cold storage facilities are designed with higher ceilings and optimized layouts to maximize storage. The preferred ceiling height on new cold storage facilities is 50 feet, while the average height of Class B industrial storage space is around 20 to 24 feet. At the Garland Logistics Center, Westmount raised the property's roof by 15 feet to maximize cold storage space and added 90,000 square feet of freezer/cooler space. These renovations allowed a high-profile tenant, Kraft Heinz Company, to quickly transport cold goods to more retail clients and consumers, resulting in the signing of a new 121-month lease that commenced in September 2017.

There is consistent demand for well-located, efficiently designed cold storage space because these facilities help maintain the quality of perishable goods to the last mile of delivery.

Delivering Modern Solutions for a Long-term Strategy

As food production and distribution become more globalized, the need for advanced cold storage facilities near ports, intermodal hubs and transportation corridors, as well as to service infill locations, has surged. In Westmount's experience, there is consistent demand for well-located, efficiently designed cold storage space because these facilities help maintain the quality of perishable goods to the last mile of delivery.

Even so, the existing supply of cold storage is limited. According to Cushman & Wakefield data on food logistics, demand for cold storage has significantly outpaced the modest 3.73 billion cubic feet of existing supply, much of which is dated product built nearly 40 years ago. This shortage of modern cold storage facilities offers investors an opportunity to capitalize on new developments, which must prioritize strategic location, functional design and high-quality construction.

Investors should consider the following factors when evaluating cold storage opportunities:

Strategic location: The success of cold storage facilities relies not only on their proximity to transportation hubs, but also on workforce and demand centers with favorable regulatory and business environments.

Tenant diversification: A diverse tenant base representing various industries can provide stability. Preference should be given to tenants with strong credit profiles and long-term lease agreements to mitigate risk.

Risk mitigation: Conducting comprehensive due diligence is essential, including knowledge of the market demand, construction costs and operational expenses. Investors should choose partners with disciplined development strategies to prevent overbuilding and ensure projects remain financially viable.

Peering Into the Future

Cold storage is positioned to become a cornerstone of industrial real estate's future. The sector presents a lucrative opportunity for real estate investors and developers, but it requires careful consideration of market dynamics, tenant needs and operational costs.

Investors aiming to capitalize on this market must balance high up-front costs with long-term income potential. The focus should first be placed on mapping out strategic locations, paired with investing in innovative technology and establishing partnerships with strong tenants. With careful planning, cold storage offers a differentiated opportunity within the evolving industrial real estate landscape that doesn't show signs of cooling down anytime soon. ■

Cliff Booth is the founder and chairman of Westmount Realty Capital.

Mitigating Risk Ahead of the Storm

The most recent hurricane season drives home the importance of drafting strong casualty and force majeure provisions for commercial properties.

By Megan Naioti and Laura Goode, Parker Poe

Hurricane Helene's financial toll on residential and commercial properties across the Southeast, including in areas such as western North Carolina that have historically not been prone to such disasters, is estimated to be almost $60 billion. Hurricane Milton, which caused significant damage in many parts of Florida, resulted in losses exceeding $35 billion.

For real estate developers, buyers and sellers, there is a crucial period after a contract is signed for a commercial property but before the closing takes place. Storms like Helene and Milton serve as important reminders about often-overlooked tools that can help mitigate the risks associated with potential damage to commercial properties during sales. Whether purchasing or selling a property, it is essential to review the purchase and sale agreement closely, paying particular attention to the casualty and force majeure provisions.

A casualty or risk of loss provision, as the name suggests, addresses which party bears the risk of loss when the property is damaged. A force majeure provision addresses the impact to the parties' performance obligations under a contract upon the occurrence of events outside of the control of the parties, including natural and human-made events such as wars, strikes or civil unrest. These provisions are crucial in clearly defining who bears the financial responsibility for property damages and under what circumstances a party's obligation to fulfill the contract may be excused or delayed. Drafting strong provisions before calamity strikes can help avoid confusion, uncertainty and unnecessary conflict during what is likely to be a stressful time.

When Casualty and Force Majeure Provisions Kick In

After a storm passes and the parties begin to assess the damage, both buyer and seller will turn

New and Noteworthy

312 units


Greystar

Greystar Real Estate Partners opened its first **modular apartment complex** in the United States in **Coraopolis, Pennsylvania**, outside of Pittsburgh. The six-building complex, **Ltd. Findlay**, contains 312 apartment units with features such as smart thermostats and keyless entry. Amenities include a gym, amphitheater, bocce ball court and electric vehicle charging. Floor plans include one-, two- and three-bedroom units measuring up to 1,373 square feet. Greystar developed Ltd. Findlay at the company's modular factory in Knox, Pennsylvania. According to The Wall Street Journal, the developer has six additional modular projects in its U.S. pipeline.

270,738 sq. ft.


Philip Castleton Photography

Construction was recently completed on **Meadowvale South**, a 270,738-square-foot **industrial building** located on a redeveloped 14-acre site in **Mississauga, Ontario**. **CanFirst Capital Management** developed the project, with **Ware Malcomb** providing architectural design services. The building features a 40-foot clear height, 42 dock-level doors, two grade-level doors, 50-by-54-foot-deep bays and a 60-foot staging bay. The site accommodates parking for 226 cars, 12 EV charging stations and 37 trailer parking stalls. The project is pursuing LEED Gold certification and is considered zero-carbon ready, meaning the building can operate with net-zero carbon emissions in the future without requiring significant retrofits.

300 units

Alliance Residential Company opened **Prose Gainesville**, a 300-unit **multifamily complex** in **Gainesville, Georgia**, outside of Atlanta. It offers one- and two-bedroom floor plans ranging from 810 to 1,182 square feet. Private outdoor space and Juliet balconies are available in select floor plans. Community amenities include a resident lounge with entertainment kitchen, co-working areas, a 24-hour fitness center, a saltwater pool, a fenced dog park and smart package lockers. Alliance Residential is focusing on rapidly expanding job corridors and lighter-density communities with its Prose multifamily residential concept.

This supermarket in Palm Beach Gardens, Florida, was one of many commercial buildings damaged or destroyed by Hurricane Milton in October 2024.

felixmizioznikov via iStock Editorial/Getty Images Plus

to the negotiated purchase and sale agreement and its provisions to determine the next steps. Therefore, negotiating these terms between parties at the onset is critical. The purchase and sale agreement will ultimately govern when a party may terminate the agreement, who keeps any earnest money, who is responsible for completing repairs and paying the associated costs and expenses, and whether any deadlines are subject to extension.

For example, timing language is helpful. A risk of loss or force majeure provision that clearly states the seller must alert the buyer of property damage within a specific period of time and that the buyer also has a specific period of time after that to assess its options and decide what direction to take — terminate the agreement, seek a price reduction or proceed to closing — can provide clarity and keep conversations moving forward. In the case of a termination, the casualty and force majeure provisions can also spell out which party keeps the earnest money.

Other best practices include clearly defining what level of damage triggers the casualty provision. One way to accomplish this is by defining what constitutes material damage through monetary values or levels of property damage. The provision could, for example, explicitly state that when the cost to repair the damages exceeds a certain threshold or when the time to repair them would take longer than a specific time period, either party can terminate the agreement. Or the provision might state that when more than a certain percentage of the property is damaged, the agreement can be terminated. Any damage that does not rise to these levels would be treated as business as usual under the purchase and sale agreement.

Force majeure provisions can also govern delays to each party's performance of its obligations under the purchase and sale agreement. Such provisions can allow the parties to stay under contract, at least for some predetermined period, Force majeure provisions can also govern delays to each party's performance of its obligations under the purchase and sale agreement. Such provisions can allow the parties to stay under contract, at least for some predetermined period, when an unexpected event occurs that is out of either party's control.

when an unexpected event occurs that is out of either party's control. This can be important for long-term relationships such as residential development lot takedown agreements between developers and builders. Both parties are engaged in substantial work prior to land conveyance with potential ongoing work that survives the closing. Termination of the deal may not be a desired result for either party.

Naturally, the buyer will negotiate these terms in a way that offers them the most flexibility and protection of their earnest money. The buyer benefits from lower thresholds to activate the casualty provision and longer timelines to perform under the force majeure provision. These put the most options on the table to receive a price reduction, require certain repairs ahead of closing or walk away from the deal with the earnest money in hand. Severely damaged properties come with financial risk and slow project timelines down, so having these options to determine whether the deal still pencils out can be helpful.

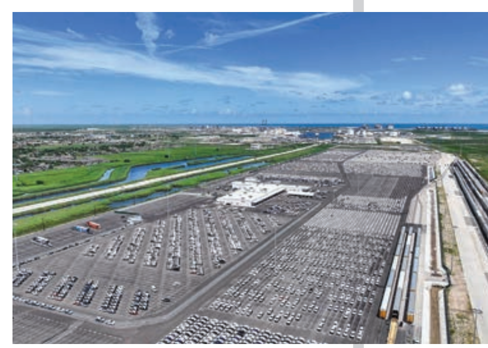
The seller, meanwhile, will want to limit this language as much as possible to keep the agreement status quo. Sellers will want higher

New and Noteworthy

200,000 sq. ft.

ValueRock Realty announced the grand opening of **The Commons**, a 21-acre **mixed-use project** in **Aliso Viejo, California**. It was redeveloped by transforming a vacant Lowe's Home Improvement warehouse into a multitenant community center that includes Tesla, 99 Ranch Market, Daiso, Philz Coffee and Bowlero. The Commons brings nearly 200,000 square feet of retail along with a proposed 343-unit luxury residential project. ValueRock purchased the first parcel in 2015 and began conceptualizing the reimagined project in 2017 as big-box stores started closing nationwide. ValueRock entirely self-funded the approximately $53 million redevelopment, which has a current estimated value of over $115 million.

200,000 sq. ft.



KDC completed the $114 million **Port Freeport facility** in **Freeport, Texas**, for **Volkswagen Group of America** (VWGoA). Situated on 120 acres, the Gulf Coast hub will import and process up to 140,000 Volkswagen, Audi, Bentley, Lamborghini and Porsche vehicles annually. The campus encompasses service buildings totaling more than 200,000 square feet, with asphalt parking for more than 16,000 vehicles, trucks and railcars. KDC partnered with **PRP Real Estate**, VWGoA and Port Freeport on the project. The facility creates 110 direct jobs and numerous indirect jobs in trucking, rail and vessel operations. **Stewart Development & Construction** served as general contractor.

153 units

Redwood Living, Inc. started construction on **Redwood Amherst**, a new neighborhood of **single-story apartment homes** that will add a residential rental option to Sandstone Development, a Planned Development District in **Amherst Township, Ohio**. Seven floor plans range from 896 to 1,620 square feet. Phase I of the neighborhood will include 153 apartment homes, with the first residents moving in this year. Phase II will include approximately 52 units, with timing to be announced. Unlike traditional apartment complexes, apartment homes by Redwood feature single-story open floor plans, attached two-car garages, and private entrances with individual street addresses.

A Look Ahead

The aftermath of Hurricane Helene along a former commercial strip in Asheville, North Carolina.

FS via iStock Unreleased

thresholds, shorter timelines and rights to keep the earnest money as consideration for taking the property off the market, even if the buyer terminates the deal. Buyers and sellers often go back and forth on these metrics and will typically land somewhere in the middle of each of their starting points.

Ask the Right Questions

Strong casualty provisions are not just about putting monetary values on damage caused. They should also contemplate insurance claims and proceeds.

After a tree falls on half of the units at a self-storage facility, hail damages a logistics center's roof or a river floods an apartment complex, one of the first things an owner will do is alert its insurance company. If any of these casualties occur while the owner is under contract to sell the property, then a buyer has an equally vested interest in the owner making a timely claim and receiving proceeds from its insurance company.

Among the questions for a casualty provision to address are which party receives the insurance proceeds, does the owner assign the claim to the buyer, or will the owner keep and pursue the claim and reduce the purchase price? By not answering these questions in the purchase and sale agreement at the outset, either party may be leaving dollars on the table and losing leverage in negotiations after the damage is done.

A Critical Piece of the Playbook

A purchase and sale agreement is the playbook for buyers and sellers while under contract. Provisions in these agreements commonly address what is reasonably foreseeable, such as guardrails for conducting diligence on the property. However, it is equally important to include provisions that address the unforeseeable, like a hurricane striking the entire city of Asheville, North Carolina. During the negotiation of a commercial property transaction, many stakeholders overlook provisions that address the unforeseeable or view them as boilerplate. In reality, there is

California Wildfires

The wildfires that broke out in Southern California in January are estimated to have erased $30.42 billion in property value, including land, according to an analysis based on exclusive data from CoStar Group. Approximately 11,200 residential and commercial properties were burned in the fires.

CoStar News reported that 74 apartment buildings containing 870 units were destroyed across Los Angeles in the Palisades and Eaton fires. The properties were valued at an estimated $390 million.

"Also destroyed in the combined fires were 26 office buildings totaling 248,000 square feet and valued at an estimated $114 million, two industrial buildings totaling 208,000 square feet with an estimated $60 million value; and 23 other building types, including religious properties, totaling 210,000 square feet," according to CoStar News. "No hotels were destroyed."

The purchase and sale agreement will ultimately govern when a party may terminate the agreement, who keeps any earnest money, who is responsible for completing repairs and paying the associated costs and expenses, and whether any deadlines are subject to extension.

nuance in the details, including how both parties view material damage that results from severe storms.

This past hurricane season demonstrated that even areas long thought safe from such weather disasters are becoming more prone. It also put the need for strong casualty and force majeure provisions into sharp focus. Developers, buyers and sellers can better avoid disputes, reach quicker resolution and mitigate their financial exposure by accounting for the "this will never happen to me" scenario at the onset of a deal and including it in their playbook — the purchase and sale agreement. ■

Megan Naioti is a real estate and commercial development lawyer. She is an associate with Parker Poe in Atlanta. **Laura Goode** is a commercial real estate lawyer in Parker Poe's Raleigh, North Carolina, office.

New and Noteworthy

159,305 sq. ft.

GO Industrial, in partnership with **Clarion Partners**, acquired a 9.4-acre infill parcel for the development of **Three Five Logistics**, a state-of-the-art, 159,305-square-foot **Class A industrial facility** on the southern border of Sky Harbor International Airport in **Phoenix**. The project will feature 32-foot clear heights, 27 dock-high doors, four drive-in loading doors, 47 trailer stalls and 164 auto parking spots. **DLR Group** will lead design of the facility. GO Industrial planned to demolish the existing single-story office/light industrial building on the site by the end of the year's first quarter.

75,000 sq. ft.

Emergent Properties and **RNGD** broke ground on the **Lewter District**, a 1.5-acre **mixed-use community involving adaptive reuse** in **Huntsville, Alabama**'s historic downtown core. The $50 million project will be completed in three phases: construction of the Lewter District Townhomes, a community of 14 luxury residences; restoration and renovation of the former Lewter Hardware Company into a 5,500-square-foot restaurant, bar and bakery, as well as a 2,400-square-foot office for RNGD; and construction of a new five-story, 75,000-square-foot Class A office building with 4,500 square feet of ground-floor retail and a front porch opening onto a reimagined Lewter Way.

73 units

Aufgang Architects

Maddd Equities is developing an **affordable mixed-use condominium community** in **Harlem, New York**. Designed by **Aufgang Architects**, the 13-story building will include 7,000 square feet of ground-floor retail space and 45,000 square feet of medical offices on the second through fifth floors. Of the 73 condo units, 31 will be one-bedroom, 38 will be two-bedroom, and four will be three-bedroom units. The condominium will feature apartments approximately 100 square feet larger than those usually found in new affordable residential construction in Manhattan. The building will be all electric and will feature outdoor recreation space, a fitness center and a co-working space/lounge. ■

Do you have a new and noteworthy project in the planning, design or construction stage that you'd like to share with fellow real estate professionals? Send a brief description and high-resolution rendering to developmentmagazine@naiop.org.

Forging a New Purpose With Adaptive Reuse

Swinerton's embrace of adaptive reuse for its regional office in Charlotte presented challenges that were outweighed by opportunities.

By Thomas Ivy, Swinerton

In 2023, 45% of projects billed by U.S. architects focused on the renovation, rehabilitation, retrofitting, extension or preservation of existing buildings, according to the American Institute of Architects. Swinerton is one of the construction firms at the forefront of these transformations, not just for clients but for its own offices.

Putting Down Roots

In 2018, Swinerton launched its Carolinas division and set about finding a prime location for office space in Charlotte. Ideally, it would be near active areas within the market and appeal to employees and clients. Additionally, the space would have room for expansion and reflect Swinerton's culture as builders.

The firm was already contributing to revitalizing Charlotte's neighborhoods by repurposing various buildings through adaptive reuse developments. Through this experience, Swinerton realized that an adaptive reuse approach for its own office in Charlotte would effectively reflect the company's culture and showcase its expertise, all while providing a comfortable workspace for its employees.

Swinerton decided on Station West, a 67,000-square-foot adaptive reuse development within FreeMoreWest, an emerging live-work-play community located next to Charlotte's popular Uptown neighborhood. This area was once home to Camp Greene, a 6,000-acre U.S. Army base established in 1917. After the base was relocated, the region developed into a vibrant commercial and residential hub, but its popularity began to decline in the 1970s.

The company chose a former warehouse building with nearly 19-foot ceilings, allowing for unique architectural and design features highlighting the builder's craftsmanship. To maintain the authenticity of the original environment, the exterior walls, roof, interior demising walls and

Swinerton realized that an adaptive reuse approach for its own office in Charlotte would effectively reflect the company's culture and showcase its expertise.

Rather than moving into an established office building when it launched its Carolinas division, Swinerton decided to locate in an adaptive reuse development near Charlotte's Uptown neighborhood.

Courtesy of Swinerton

Swinerton adapted the former warehouse to include a variety of common areas, a glass-enclosed conference room, and abundant natural light from large windows and skylights.

Courtesy of Swinerton

concrete slab were preserved. The building also has numerous large windows, patio access and connectivity to Charlotte's Greenway, integrating the structure with the surrounding natural environment.

Encountering Challenges

In June 2021, Swinerton established temporary offices on-site at Station West in a building adjacent to the site. This allowed for effective oversight and responsive decision-making, which were especially important when working within a 70-year-old structure.

True to the reputation of adaptive reuse projects, the former warehouse space offered challenges. An oversized commercial walk-in refrigerator required removal to create the desired open floor plan. Also, the neighboring operating concrete plant presented logistical obstacles to coordinating construction machinery and deliveries with incoming and outgoing mixing trucks. Architectural fencing addressed aesthetic challenges by creating a visual barrier between sites.

There were also structural challenges to overcome. Engineers determined that the original structure would not support the weight of the planned

The addition of a 1,700-square-foot mass timber mezzanine required recalibrating weight distribution and installing structure walls for further support.

Courtesy of Swinerton

mezzanine level, which was constructed of mass timber. Weight distribution was recalibrated with additional footings, and structure walls were installed to support the heavy apparatus.

On-the-job Training

Swinerton also identified workforce development opportunities as part of the Station West construction project. Supervisors utilized the build as a self-perform training platform, running training exercises for project engineers and managers for various tasks, including screw spacing for hanging drywall and installing mass timber elements. The company also self-performed all concrete and steel work, in addition to installing ceilings, walls, and all finishes and fixtures.

Working in tandem with Charlotte-based interior construction firm CBI Workplace Solutions, the Swinerton team also learned how to install Falkbuilt wall systems that feature glass-enclosed conference rooms and offices. That service is now offered to Swinerton's commercial interior clients.

From Old to Bold

Swinerton's Carolinas division office is also a showroom. Completed in 2021, the 8,535-square-foot environment

Swinerton also identified workforce development opportunities as part of the Station West construction project. Supervisors utilized the build as a self-perform training platform, running training exercises for project engineers and managers for various tasks.

more than doubled the original footprint and accommodated a regional team that had grown to 90 professionals since the company's regional expansion in 2018. The $1.6 million construction project was completed in 18 weeks.

The 1,700-square-foot mass timber mezzanine is suspended nearly 9 feet above the main level; this centerpiece added approximately $160,000 to the construction costs. It was designed, fabricated and installed by Timberlab, an affiliate company of Swinerton, which operates a fabrication facility in nearby Greenville, South Carolina. Mass timber is also featured in a conference room, where a floating panel cascades like a waterfall down an adjacent wall.

Abundant natural light infuses the space from several skylights on the mezzanine level as well as expansive windows throughout the space. This combines with the biophilic elements of the mass timber to support a healthy work environment.

Common areas welcome employees and guests with a variety of spaces to accommodate diverse working preferences and functions, from collaborative meetings and individual head-down focused work for Swinerton employees to unassigned workspaces for visitor "hoteling" options and open space for neighboring organizations needing meeting space. Three operational garage doors offer immediate access to the patio, creating seamless connectivity to the natural environment.

In less than two years, the Carolinas division needed more space. In 2023, the construction firm completed a nearly $1 million expansion, adding 3,000 square feet of additional private offices and workstations (now totaling 17 and 25, respectively), a 13-foot communal worktable and a "family room" with another garage door opening.

Although it can present obstacles, adaptive reuse can also reinvigorate neighborhoods and provide impressive and unique environments. The vision and desire to discover new purposes in old buildings ensure that adaptive reuse will continue to play an important role in commercial real estate development and construction. ■

Thomas Ivy is senior project manager at Swinerton.

Lessons Learned

Throughout the build-out of its office in Charlotte, the Swinerton team learned the following valuable lessons about tackling an adaptive reuse project:

Be prepared for the unknown. Old buildings are filled with quirks, many of which may remain unknown until well into a project. Remaining flexible and willing to adapt are keys to successfully completing an adaptive reuse project.

Multitenant adaptive reuse projects are a team effort. In an adaptive reuse environment, it's important to align with neighbors to maintain the building aesthetic. In many cases, restrictions will be in place that dictate what can and cannot be changed or installed into an exterior facade or shared areas.

Mitigate risk. Calculate a contingency for unexpected work into the budget. For example, outdated plumbing or HVAC systems may need to be replaced to pass inspection. Account for the potential for unknown expenses.

Acquire a set of as-built drawings. Obtaining a set of as-built drawings for the base building and the original structure before beginning construction can help avoid unforeseen conditions with the slab, roof and exterior walls. If these drawings are not available, use scanning technologies to provide a better understanding of current conditions such as previous placement of mechanical, electrical and plumbing systems.

Save on finishes. Taking advantage of an adaptive reuse property's industrial aesthetics and unique features can save on costs for flooring, ceilings, drywall and other finishes. At Swinerton's Charlotte office, the ceiling is open to the original overhead structural elements. The flooring is the original concrete, polished and sealed. The brick walls from the original building remain visible.

Identify long lead times. Particularly with specialty elements, get a head start on procurement to avoid delays in the build schedule. For Swinerton, delivery of the wall systems and garage doors were delayed.

A Look Ahead

The Future Lab

What a global survey of scientists says about developing tomorrow's research buildings.

By Cathy Bell, NBBJ, Brooke Grindlinger, The New York Academy of Sciences, and Ryan Mullenix, NBBJ

The commercial life science markets are currently facing challenges, with availability rates reaching 30%. However, the long-term outlook for this sector remains strong. In this evolving landscape — where technological advancements are transforming research methodologies — it is crucial to understand the needs and preferences of scientists. And yet, few surveys have taken a holistic look at what researchers require in the workplace.

To address this knowledge gap and further explore ways to improve research facility design, the architecture firm NBBJ and the New York Academy of Sciences — one of the country's oldest and largest scientific societies — conducted a global survey of scientists throughout the summer of 2024. The Future Lab survey examines the work habits and built environment needs of 1,059 scientists representing a diverse cross-section of disciplines, career stages and geographies.

The Future Lab survey's key findings can help drive the design of next-generation research spaces that are flexible, improve well-being and perform more sustainably. Given that the survey found 65% of scientists consider workplace design to be a central factor in choosing an employer, the following insights offer a guide for creating life science developments that attract and retain top talent.

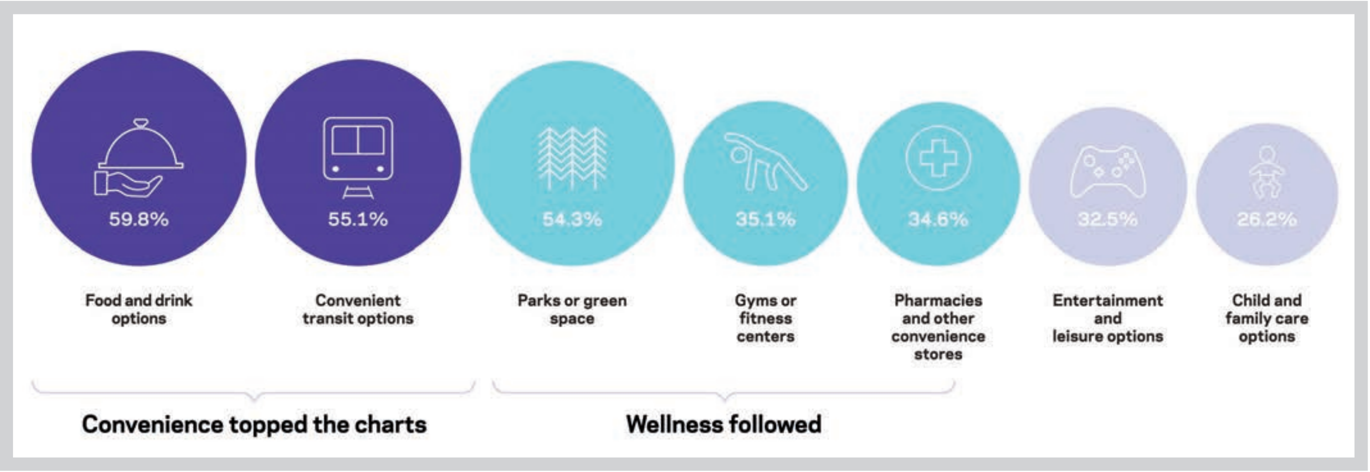
What Do Scientists Want in a Lab? Start With Collaboration

The survey started by asking scientists which elements are most important to them in their

Scientists prioritized spaces designed for collaboration more than their physical comfort. Across various regions, disciplines and career stages, the availability of collaborative spaces ranked as the top priority.

The Regenerative Lab, developed by NBBJ, can be disassembled and reconfigured to adapt to shifting market needs.

All images/survey graphics courtesy of NBBJ



primary research building. This is perhaps the most important design consideration when weighing where to make investments and how to attract and retain tenants.

Not surprisingly, scientists prioritized spaces designed for collaboration more than their physical comfort. Across various regions, disciplines and career stages, the availability of collaborative spaces ranked as the top priority. Areas for focused individual work and adaptable, flexible spaces were also frequently identified as critical needs (respondents could pick three options):

- Space to collaborate with others: 49.7%
- Adequate space for individual work: 47.3%
- Flexibility and customizability to meet your needs: 43.4%
- Space to socialize and build connections: 41.5%
- Physical comfort (including elements like seating, temperature and air quality): 41.3%
- Views of nature or outdoors: 40.7%
- Convenient amenities: 33.4%

The survey asked scientists to prioritize a list of common amenities. Those focused on convenience, such as food options and accessible transit, were rated as the most important, followed by amenities that promote wellness (see graphic above).

Proximity to Researchers — Even at Other Institutions — Is Paramount

The survey asked scientists to evaluate the importance of being within walking distance of other scientists inside and outside their organization.

A strong consensus emerged (82% of respondents) that being physically near colleagues is critical for most scientists. Additionally, a clear majority (66%) value proximity to scientists in outside organizations, with this priority being even more pronounced in highly interdisciplinary fields such as engineering.

Given the importance scientists place on proximity to one another, clustered research buildings designed to foster interaction and relationship-building are particularly attractive to tenants. While social areas and amenities are commonplace, one often underutilized asset is the surrounding landscape. Features such as outdoor walking paths, rooftop gardens and indoor-outdoor spaces can provide informal opportunities for connection and socialization beyond the lab.

Scientists Report Their Buildings Can Do More to Support Well-being

Research has shown that office buildings impact the mental and physical health of their occupants. To investigate this connection, the survey asked scientists to assess how their current research building affects their well-being.

Only one-third of respondents believed that their current building adequately supports their physical and mental health. Considering the substantial effect that physical and mental well-being has on both individual performance and organizational success, this percentage should be significantly higher.

The survey suggests life science developers could differentiate properties by doing more to support the well-being of scientists. How can this be achieved? Part of the answer lies in neuroscience. Through initiatives like NBBJ's partnership with developmental molecular biologist **Dr. John Medina**, research building design can target elements that directly enhance well-being — such as fostering personal agency, encouraging movement and connecting people with nature.

Technological Change Requires Rethinking the Cluster

Technologies like AI and automation are transforming science, but to what extent? And what implications does this have for life science clusters? To explore these questions, the survey asked scientists to what extent technology is disrupting how they work.

A rendering of the University of Utah Huntsman Mental Health Institute.

Scientists across the board recognized that technology is changing how they work, even if only slightly. Interestingly, 22% reported that AI, automation and other technologies were having no impact, with life scientists representing the largest percentage of this group. When asked to predict the impact over the next five years, 87% anticipated a shift toward "slightly" to "very disruptive," reflecting a dramatic increase in expected change.

Remote work technologies are also enabling new modes of collaboration and research. Scientists reported that a significant portion of their work — 59% — could be done effectively from a remote setting.

With the rise of technologies like cloud labs, there is a clear opportunity to reorganize life science developments around the collaborative spaces scientists prioritize. As technology continues to decentralize research, this may also require rethinking life science clusters less as centralized hubs of scientists, labs and technology, and more as networks of locations, featuring collaborative hubs, retreat centers or other locations driven by lifestyle amenities, all supported by cloud labs and other technologies.

Lab Facilities Are Flexible Enough for Today, But Not for Tomorrow

Science is constantly evolving, which means that laboratories need to be more flexible — not only in the short term but also to adapt to changing market demands over the long term. With this in mind, the survey asked scientists if their primary science building is adaptable enough to meet their changing research needs.

Flexibility ranked as the most important building feature for specific demographic groups — scientists in North America, engineers, and those in advanced stages of their careers. Despite this, the survey revealed that over 40% of scientists think their current building lacks sufficient flexibility. When lab spaces can be rearranged on demand, scientists can maintain the pace they need to make critical breakthroughs without pausing for renovations.

Even if most scientists feel their current building is flexible enough, developers and owners must consider whether that flexibility will remain true in five or 10 years. To explore how labs can adapt over time, NBBJ developed the Regenerative Lab, an evolutionary concept for a people-focused, sustainable lab. Built using a hybrid steel and cross-laminated timber structure, the Regenerative Lab can be disassembled and reconfigured to adapt to shifting market needs, evolving from a lab to office space or even residential use as demands change.

Researchers Want More Sustainable Buildings

Labs are some of the most energy-intensive buildings, making sustainability a pivotal design consideration. The survey asked scientists how important it is that their primary science building is sustainable.

Eighty-three percent of scientists expressed a strong preference for sustainability, reflecting one of the highest levels of consensus in the survey.

With an estimated 60% of labs needing energy-efficient upgrades, this gap between scientists' interest in sustainability and the actual performance of their labs represents a key market opportunity. According to an article from AIA California, reuse and renovation with system upgrades can reduce a building's embodied carbon 50-75%, but this approach is sometimes overlooked as a strategy for achieving more sustainable buildings. Tools like NBBJ's open-source ZeroGuide can help developers and owners calculate the potential carbon benefits of renovation, along with the carbon equivalent of all project-related emissions.

The Future Lab survey reveals many insights while raising new questions — such as how neurodiversity and generational differences influence scientists' needs in the built environment. The hope is that this research will contribute to the creation of market-leading life science developments that are healthier, more sustainable and more adaptable than ever before.

The full survey, including all questions, responses and additional demographic breakdowns, can be downloaded at nbbj.com. ■

Cathy Bell is the firmwide education and science practice leader at NBBJ. **Brooke Grindlinger** is the chief scientific officer at the New York Academy of Sciences. **Ryan Mullenix** is the firmwide corporate practice leader at NBBJ.

The Importance of Addressing Construction Defects

Understand what to look for and how to proceed should a problem arise.

By Stanley Stoll, Knott Laboratory

Construction defects — flaws or errors in a building's design, materials or workmanship that cause damage or diminish its value — are among the most common and expensive risks faced by contractors, developers and property owners.

The Hyatt Regency Kansas City walkway collapse in 1981 is an extreme example and worst-case scenario of construction defects. The suspended walkways collapsed during an event, killing 114 people and injuring an additional 216. This tragedy occurred when changes were made in the design of the hanging walkways and approved by the engineer without running the proper calculations, resulting in the walkways being under strength and causing the box beams to split and pull through the suspension rods.

A more recent example of costly construction defects is San Francisco's Millennium Tower, where the 58-story building tilts just under 29 inches due to foundation issues and has undergone a $100 million retrofit. In early 2024, it was reported that residents were asked to foot $6.8 million in repairs, which are said to be more than $20 million over budget, to address additional sinking issues. Foundation issues of this magnitude can cause other major problems, such as cracks and water intrusion.

The construction market is healthy overall, with year-over-year spending up 6.5% in 2024, according to the U.S. Census Bureau. That spending reflects a need for new and renovated infrastructure. At the same time, it is difficult for contractors to find skilled labor, with the industry needing to attract more than 450,000 additional workers on top of normal hiring to meet demand, according to Associated Builders and Contractors. Those two factors in combination will exacerbate construction issues.

Given this reality, developers, construction firms, building operators and facility managers must stay informed about construction deficiencies. This includes understanding how to identify defects and appropriately address them.

Causes of Construction Defects

Preventing construction defects requires diligence and attention to detail. Defect-free construction is difficult to achieve due to the challenges of multiple trades working together, the proliferation of new building materials and systems, and the market demand for expedited construction. Defects are most likely to originate from one of three areas (or some combination thereof):

Workmanship: Even when everyone strives for quality workmanship, labor market

It is difficult for contractors to find skilled labor, with the industry needing to attract more than 450,000 additional workers on top of normal hiring to meet demand.

A laser scan of the facade of a high-rise building.

Courtesy of Knott Laboratory

Courtesy of Knott Laboratory

The rate at which a crack is growing determines the severity of the issue.

Some construction defects are immediately apparent, while others may be hidden and harder to identify until the issues have compounded over time.

shortages, simple mistakes and improper trade collaborations can lead to construction defects. Deviations from the project plans and material specifications can also undermine the quality and performance of the finished structure.

Design: Errors in the architectural or engineering design phases, such as miscalculations, incorrect specifications or building code violations, can result in significant defects. These issues may lead to moisture intrusion, inadequate drainage, reduced service life and costly foundation failures.

Materials: Improperly selected materials or incompatible materials can compromise the integrity of building envelope components, often resulting in cracking or failure. Material defects frequently manifest as poor moisture management, which can cause material degradation and allow moisture intrusion.

Spotting Construction Defects

Some construction defects are immediately apparent, while others may be hidden and harder to identify until the issues have compounded over time. It is imperative to know the signs and symptoms of construction defects and to address them immediately before they worsen.

Water intrusion: Some water intrusion might seem like a nonissue, especially in a structure exposed to the elements, like a parking garage. However, this is one of the most serious signs of a construction defect in all built environments because water can cause severe damage to the structure, building materials and interior finishes. Finding the water source can be challenging, as defects may originate in the roof, walls, flashings, windows, doors, plumbing or drainage systems.

Grading and drainage: Soil has different attributes in every region of the country. Regardless of the soil type, grading it away from the structure and ensuring proper drainage is important to prevent water pooling around the foundation, which can cause foundation movement and building cracks. The structural damage done to a foundation will quickly lead to more issues throughout the building.

Cracks or gaps: Aside from foundation movement, material expansion and contraction within a building can cause cracks, which can indicate construction defects. When cracks or gaps are spotted, it is important to determine if they are growing and, if so, how quickly. How the crack or gap progresses will determine the severity of the issue.

The Legal Process

Construction defect laws vary by state, but it is important to understand the following aspects of the legal process:

Legal counsel: In all cases, it is paramount to seek legal counsel from an attorney who has experience with construction defect litigation. These attorneys will know the laws and case tactics and have access to forensic engineers and experts who are skilled at evaluating buildings for the purpose of supporting or defending litigation.

Forensic engineers: These engineers specialize in evaluating existing buildings to identify the root cause of an issue, the extent of the damage, the responsible parties, and the best methods of mitigating and repairing the building. Forensic engineers may start by evaluating an owner's complaint but often transition to providing technical support to general contractors and developers when a subcontractor, material manufacturer, design engineer or architect failed to meet the standard of care for the project.

Statute of repose: This is the time limit wherein the deficiency must be identified after construction is finished and the buyer or building owner must file a lawsuit against the contractor or developer responsible for the construction defects. The statute of repose varies considerably from state to state but is generally six to eight years in length. Contractors and developers still have a limited exposure window to legal claims for construction defects beyond this time frame.

Statute of limitations: This is the time limit for an owner to file a claim against a builder once the construction deficiency has been identified. In many states, the statute of limitations is two years. Thus, once a deficiency or an issue with the construction is identified, the statute of repose is no longer the determining time limit; litigation must be initiated much sooner.

Notice of claim: Many states require a notice of claim and allow the contractor to repair a deficiency before litigation can be filed. For example, the notice of claim process for commercial property in Colorado requires owners to give a written notice of the defect and allow the contractor/developer the opportunity to inspect the property. The notice must include a description of the defect, its location and the type of damage or injury the defect caused. Once the contractor or developer has inspected the property, they can offer a settlement or propose a repair.

Legal stay: This is the suspension of the statute of limitations during the notice of claim process. In some states, the legal stay prevents the buyer from filing a lawsuit against the party responsible until the notice of claim process is completed, allowing further investigation into the suspected issue.

Best Practices

Lawsuits, claims, repairs and loss of reputation can result from construction defects. When turning dirt on a new real estate project, it is imperative to think about what could go wrong with the structure during the planning and design phase. Ensuring that codes, standards and specifications are being followed is critical.

Make sure design teams stay integrated throughout the construction project via shop drawings, request for information submittals, reviews and approvals, and make sure they are on-site to see how the construction systems are actually going together. Third-party peer reviews during the design and construction phases by forensic engineers and architects can also be extremely valuable. Selecting suitable materials to withstand the test of time and mitigate risks, taking into account soil and weather conditions, is essential. Similarly, it is crucial to inspect the property diligently to ensure materials and workmanship align with the design documents.

If signs or symptoms of construction defects, such as water stains or interior cracks, become apparent after building completion or in an existing building, identify the root cause before anyone tries to cover the issue with spackle or paint. Taking care of the issue and monitoring the building for any other underlying issues can keep small, relatively easy fixes from becoming major undertakings. ■

Stanley Stoll is the CEO and principal engineer at Knott Laboratory.

Key Considerations for Manufacturing Facility Site Selection

Zeroing in on the right site can make or break high-stakes manufacturing projects.

By Liz Demaree and Woojin Shin, Nelson Mullins

In recent years, the United States has witnessed a resurgence in large-scale manufacturing projects ranging from electric vehicle factories to heavy industrial plants. These high-stakes investments are reimagining what American manufacturing can become in the 21st century. But a significant challenge accompanies such ambitious projects: selecting the right site.

It's no longer just about finding available land; it's about navigating a complex web of incentives, negotiations and logistical considerations that will determine whether these projects succeed or fail.

International companies such as Samsung, TSMC, SK and LG have joined U.S. domestic players in considering the support they could receive from state and local governments in the form of cash incentives, tax credits and workforce development when selecting sites for their U.S. manufacturing facilities. These companies negotiated attractive incentive packages that will help offset some of their initial capital investments and support local workforce development.

For instance, the Arizona Commerce Authority and the city of Phoenix provided a comprehensive incentive package for TSMC's new semiconductor fabrication facility in the state, including income and property tax exemptions, as well as infrastructure support. Additionally, TSMC's Arizona facility will benefit from workforce development programs offered by the Arizona Commerce Authority to recruit and train workers for high-tech manufacturing jobs.

State and Local Incentives

When selecting a site for a major manufacturing facility, economic incentives are often as critical as securing financing or advanced technology. Companies typically evaluate potential sites for large-scale projects across several states to identify the most competitive option. State and local governments have become increasingly proactive

Lucid Motors evaluated more than 60 sites in 13 states before choosing a 500-acre property in Casa Grande, Arizona, for its purpose-built electric vehicle factory.

jetcityimage via iStock Editorial/Getty Images Plus

When selecting a site for a major manufacturing facility, economic incentives are often as critical as securing financing or advanced technology.

in courting large manufacturers, offering attractive tax breaks, grants and credits to entice companies to choose their regions. These incentives, designed to offset some of the up-front costs of developing land and constructing a facility, range from property tax abatements to sales tax exemptions and income tax credits.

States with active Opportunity Zone programs created in the Tax Cuts and Jobs Act of 2017, for example, aim to foster economic development in historically underinvested areas, making them even more appealing for manufacturers. For instance, Arizona has benefited from the growth of the automotive sector with companies like Lucid Motors and Nikola Motor Company locating in Casa Grande. Accounting for roughly 12% of the landmass of the country, Opportunity Zones are in all 50 states. Notably, the increase in U.S.-based fabrication plants, such as those for semiconductors, where Texas has benefited from dedicated Opportunity Zone funds, is key to increasing manufacturing output on a global scale. The U.S. currently ranks in the 50th percentile in this measure.

As valuable as these incentives are, they come with their own set of challenges. Navigating the maze of available tax benefits across different jurisdictions can be daunting. Tax incentives come in various forms, each with differing qualification criteria and long-term implications. Comparing these diverse offerings to identify the most advantageous package often requires thorough analysis and expertise. Manufacturers must assess whether the offered incentives are sustainable over the long term and whether they outweigh the cost of compliance. Furthermore, the incentives need to align with the company's goals, and companies must ensure they meet the requirements to qualify.

Factors Beyond Tax Breaks

Negotiation in the context of site selection isn't just about securing tax breaks; it's about finding a win-win scenario for all stakeholders. Effective negotiations consider not only the incentives but also the underlying infrastructure, workforce availability, and proximity to customers and vendors — all critical elements in a project's long-term viability. For instance, while some states might offer more attractive tax incentives, they may not have the workforce or infrastructure to support a large manufacturing plant. Conversely, a state with a well-established industrial base and a skilled workforce may offer fewer tax incentives, but the savings in

Relevant Reading

In February 2024, the NAIOP Research Foundation published "Forging the Future: Manufacturing Growth and Its Effects on North American Industrial Markets." The report, authored by **Lisa DeNight** and **Liz Berthelette** of Newmark, examines the trends behind reshoring and nearshoring and evaluates how related investments in manufacturing are affecting North American markets for industrial real estate's two largest components: warehousing/logistics space and manufacturing space.

Download the report at naiop.org/research-foundation.

operational costs and logistical efficiency could outweigh the more robust incentives offered elsewhere.

In successful case studies across the automotive and renewable energy sectors, for example, companies have worked closely with state and local officials to identify areas where the project could provide mutual benefits, such as investing in regional infrastructure, improving transportation networks or creating workforce training programs. Such collaborations make a project more viable while also ensuring the community is prepared to handle the long-term changes the facility will bring.

Workforce Training

Access to a skilled labor pool is crucial for successful projects. During site selection, manufacturers must evaluate both the current availability of skilled workers with the necessary expertise and the potential for workforce development.

While some state governments offer workforce training programs, not all are effective. Additionally, companies in cutting-edge industries often hesitate to disclose specific training needs due to propriety concerns. Even when shared, program developers and trainers may lack the technical expertise required, resulting in inadequately trained workers.

Successful site selection is especially relevant in industries like electric vehicles or advanced manufacturing, where a combination of technical know-how and specialized skills is required. This often involves collaboration between companies, educational institutions and workforce training programs to ensure that the local labor force can meet the plant's demands. In many cases, this might involve creating new partnerships with local community colleges or technical schools to provide specialized training programs that align with the manufacturer's needs.

During site selection, manufacturers must evaluate both the current availability of skilled workers with the necessary expertise and the potential for workforce development.

Environmental Issues

Another important consideration is the environmental impact a large-scale manufacturing plant will have. Companies must ensure their projects will comply with local, state and federal guidelines concerning sustainability and the environment. This requires navigating a complex array of environmental laws and mitigating any adverse effects a project's construction might have on surrounding ecosystems.

One of the more significant challenges is managing the construction's environmental footprint, including water and air quality, as well as waste management. For manufacturers, addressing these concerns is not just about compliance; it's about safeguarding their projects' long-term viability. Communities are more likely to embrace new manufacturing ventures if they see that these operations will contribute to, rather than detract from, environmental sustainability. In some cases, this may mean adopting new technologies or adjusting designs to minimize environmental harm.

Unlocking Manufacturing's Potential

Selecting the right site for large-scale manufacturing is a multifaceted process that involves far more than just choosing an available plot of land.

As the U.S. continues to rebuild and reshape its manufacturing base, companies, local governments and communities can work together to unlock the full potential of these high-stakes projects. By collaborating effectively and addressing key challenges — whether through negotiation, leveraging incentives, or managing environmental and workforce concerns — large-scale manufacturing will remain a powerful driver of economic prosperity, job creation and community revitalization. ■

Liz Demaree is a senior policy adviser with law firm Nelson Mullins in Washington, D.C. **Woojin Shin** co-chairs Nelson Mullins' Economic Development Practice and Industry Group and is a partner in the firm's Washington, D.C., office.

Manufacturing Multiplier Effects: Impact on CRE

Newmark's August 2024 report, "Manufacturing Momentum: From Construction to Production," revealed that various automakers have invested $44 billion in new electric vehicle (EV) factories or expansions of existing facilities since 2020. This investment has resulted in over 60 million square feet of new production space. In addition, there has been significant demand for related logistics and manufacturing, with another 50 million square feet of EV-related industrial space already recorded across five states during the same period. This figure is considered a conservative estimate.

Plans are underway for a $7 billion development project in Phoenix described as a "city within a city." Known as Halo Vista, this project will surround a manufacturing complex developed by TSMC. The project will encompass 2,300 acres and provide over 28 million square feet of mixed-use development capacity. This will include up to 8,960 residential units, along with industrial, retail and office spaces, according to Newsweek.

On Leadership: Molly Ryan Carson

The executive vice president of real estate development and market leader for Ryan Companies' Southwest Region shares her insights on helping clients thrive, maintaining company culture and enthusiastically supporting communities in which she works.

By Ron Derven

Molly Ryan Carson

"[My dad] said if we were interested in joining [Ryan Companies], all he could promise was an interview and an entry-level position at the company. The rest was up to us."

Molly Ryan Carson, executive vice president of real estate development and Southwest Region market leader, Ryan Companies

Development: *Growing up in a successful real estate family, did you always know that you wanted to be part of the family business?*

Molly Ryan Carson: While I was in college, I worked summers as a field laborer at the company, but I was a psychology major with a minor in business, so I did not think about joining the firm. After graduating from college, I worked at an ad agency and loved it. I did not think much about Ryan Companies, other than to go to company parties and attend project groundbreakings.

I am one of eight siblings. When I was 26, my dad sat us down and told us a story about one of his friends who sold his business only to discover that his son was devastated because he had always wanted to join the business. The problem was that they had never discussed it. So, my dad used this story to start a conversation with us. He said if we were interested in joining, all he could promise was an interview and an entry-level position at the company. The rest was up to us. If we were not interested, that was fine, but if we wanted to join the company, it would mean a lot of work.

I began my career as a property associate, serving as a junior property manager. It was a great place to start in the commercial real estate business, especially for someone like me, who had limited construction knowledge. It allowed me to learn the ins and outs of how a building operates. More importantly, when a building functioned poorly, I got to see what needed to be done on the next building to avoid problems. After a year in property management, I moved over to the development side of the business with our retail team. I have been on the development side ever since.

Development: *Could you talk about the beginnings of Ryan Companies and take us up to the present?*

Carson: In 1938, we were a lumber company; today, we are a full-service real estate organization. We build across sectors including industrial, office, multifamily, senior living, retail, mission critical work and health care. We also develop, design, and source capital. Our focus has always been on what we can do to improve the lives and businesses of our customers, which in turn has allowed us to grow. We started working with Target and building their stores, for example, and they were pleased with the results. From there we were invited to build their distribution buildings, data centers and a new headquarters. Today, we have 1,700 employees and are in 17 markets across the country. We build in almost every state.

Development: *Could you discuss Ryan's culture?*

Carson: My great-grandfather and his sons started Ryan Companies so they could spend more time together. My Uncle Fran was working long hours at a local company when my great-grandfather asked him if he could attend a football game with him. My uncle said he was just too busy with the job. It was then they decided to buy the lumber company so they could work together. The whole premise of Ryan Companies is that if you are going to spend your life working, then why not spend it with people you care about where you can do your best work?

Development: *Ryan has helped to reshape Arizona's commercial real estate market. Could you talk about Ryan's commitment to the state and your part in it?*

Carson: I came to Arizona 15 years ago, and we have worked with government and universi-

> “The whole premise of Ryan Companies is that if you are going to spend your life working, then why not spend it with people you care about where you can do your best work?”
>
> *Molly Ryan Carson*

ties to focus on providing more opportunities for people to live and work in the state. There are thriving aerospace, financial services, semiconductor and health care businesses in the state, to name just a few. They are all growing, and we at Ryan have had an opportunity to grow with them.

Development: *You still find time to work closely with the communities in which Ryan operates. Why is that important to you?*

Carson: We have been blessed here in Arizona to be part of a state that really cares about growth and its future. Assisting communities is a real privilege for us. You get to meet people who are doing wonderful things in these communities. In working with organizations like the Society of St. Vincent De Paul, the Arizona Humane Society and Phoenix Children’s Hospital, we get 10 times more than we give.

Development: *What is your primary role as executive vice president?*

Carson: I oversee all development activities for the Southwest, from buying land to pitching a new project. I also work with organizations like NAIOP to help shape future development. I have a great team working in industrial, office, health care and multifamily, so I can be involved in many different sectors of the business.

Development: *What qualities do you look for when hiring senior staff?*

Carson: I look for people with a solid moral compass, a desire to work hard and an ability to see the larger picture.

Development: *As a senior leader at Ryan, how do you define leadership?*

Carson: To me, leadership is leading by example. Being a leader at Ryan is being both a coach and a player. Leadership is about being right in there with your team, figuring out the problems, but not getting in the way. Leadership is empowering your team to solve, to execute and to lead. Leadership is not being afraid to get into the weeds. If you expect someone to do something, you should be willing and able to do it yourself.

Development: *What has been your greatest leadership challenge at Ryan?*

Carson: Managing our tremendous growth while maintaining our wonderful company culture.

Development: *When internal conflicts arise or mistakes are made, how do you handle them?*

Carson: We handle them with direct communication immediately. We all have two ears and one mouth. So first, we listen to the problem and try to understand its origin. Then we work together to find a solution.

Development: *What is your outlook for commercial real estate in Arizona three to five years out?*

Carson: I anticipate a really good commercial real estate market in Arizona. I don't think we will see a boom like we have had in the last two years, but we as a company are very optimistic because we are so diversified. We have a lot of business coming in through the semiconductor market, and we are seeing good expansion in aerospace and financial services. Many companies, however, are still trying to figure out how to adapt to a hybrid workforce.

Development: *You mention a hybrid workforce. Are people in your markets returning to the office in large numbers or staying remote?*

Carson: It is a company-by-company issue. No one likes to be mandated to do something, so our company strongly suggests being in the office four days a week because we all work better together. Also, at least half of our employees work in the field and do not have the option of working at home — you cannot build a building from home.

Development: *What is the best advice you have received during your years in the business?*

Carson: I have received four great pieces of advice: Always do the right thing; do what you say you are going to do; don't be afraid to be who you are; and listen a hell of a lot more than you talk.

Development: *What advice would you give to someone entering commercial real estate today?*

Carson: Work hard and be authentically yourself. Years ago when I joined the industry, there were not many women in the business. Back then, I had a wonderful woman say to me, "You are never going to be one of them [one of the boys]." I said, "What do you mean?" She told me, "Be yourself, and then you will do a lot better in the business. You will succeed at what you do." That was so freeing to me, but it was also scary because I did not want to be left out of things because of my gender.

Development: *NAIOP and Ryan have a long history together. In fact, in 2007, NAIOP honored Ryan by naming the company Developer of the Year. Has the relationship with NAIOP benefited your company?*

Carson: Undoubtedly. Whatever I have personally given to NAIOP, I have received back tenfold. Just having the space to talk to a competitor is phenomenal. Without NAIOP, you do not have an opportunity to do that. NAIOP's advocacy of responsible development for businesses nationwide is so important. You cannot put a dollar amount on it. Then there is NAIOP's governmental advocacy, both locally and at the federal level. That is so critical.

Development: *Being executive vice president at Ryan is challenging. How do you relax in your off hours?*

Carson: My family and I love to travel and love to ski. We see a lot of musical performances together. Anything we can do to get the kids out and be active is great. But we love to travel because we get to see unfamiliar places, whether it is Des Moines, Iowa, or Kenya. ■

Ron Derven is a contributing editor to Development magazine.

There's an App for That: Proptech Goes Industrial

Hiffman National launches a building app to enhance the workplace experience of warehouse users.

By Carrie Szarzynski, Hiffman National

The tenant experience app has become a common amenity for office buildings, adding value for landlords and property managers alike. More than 76% of commercial real estate organizations have adopted the technology, according to HqO's State of Workplace Experience report. Office property apps have traditionally been used to access the building, book conference rooms, place work orders, and learn about on-site events and nearby businesses. The app's usage in an industrial property could offer similar features while expanding to include options for wellness and amenity sharing.

In fact, Hiffman National believes the next frontier for tenant experience apps is the industrial sector. Last July, the commercial real estate management and advisory services company launched its custom platform — Hiffman HQ — for its clients and their tenants in all Hiffman National-managed office, retail, health care and industrial properties. Working in partnership with HqO, Hiffman National created the app to focus on three pillars: education, engagement and wellness. It marked the first time the HqO platform was applied to industrial real estate.

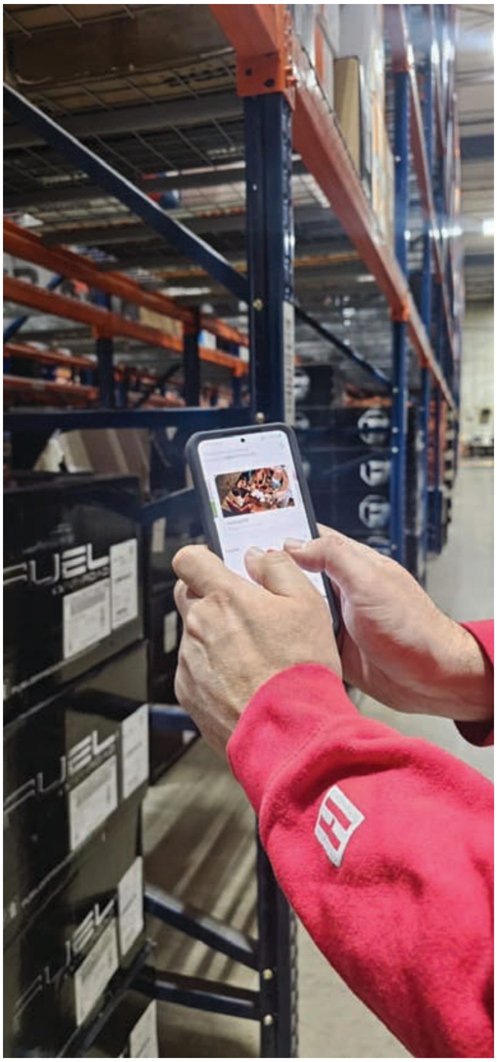
It can be costly to develop and implement proptech, and there is often an adjustment period for end users. For example, employees may not realize the app exists, especially in an industrial building that usually has fewer people on-site than

> A more diverse tenant base has emerged, powered by skilled laborers whose wants and needs are like those of the typical office worker.

in an office property. This can be addressed by posting table tents and flyers in the break rooms with a QR code that educates employees and provides them with a download link. Additionally, one property manager often oversees dozens of industrial buildings that aren't close to each other. It takes more time to educate these tenants about the app than it does for the on-site manager of a single office building who sees tenants daily.

Even so, drawing on best practices from property sectors that have been quicker to adopt such tools, Hiffman National has seen how the Hiffman HQ platform can enhance the workplace experience for warehouse users. Benefits include:

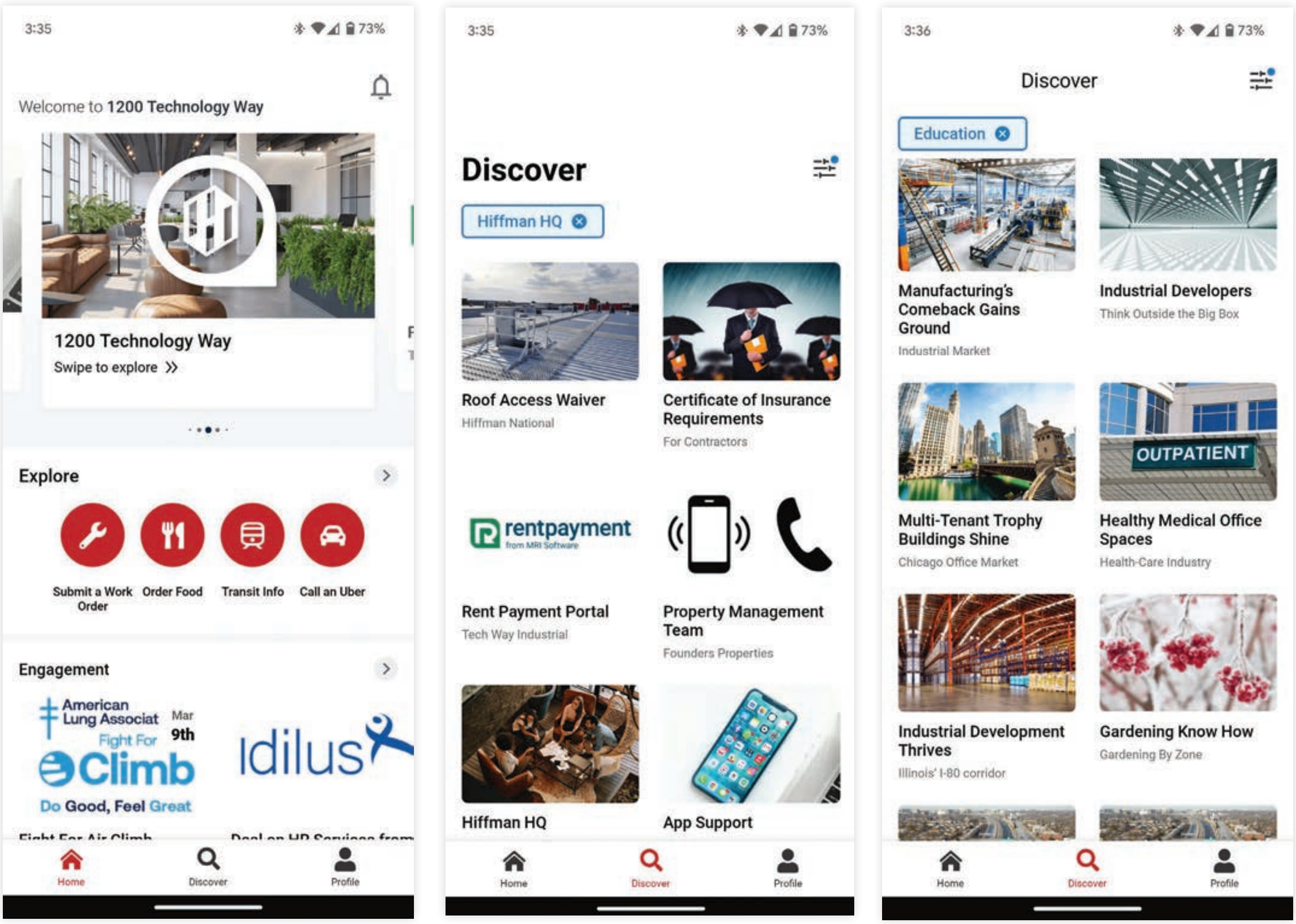
Enhanced marketability: Industrial owners have said the app is a differentiator as they compete for tenants, especially as the national industrial vacancy rate has risen. In Indianapolis, a client asked how to make its facility stand out from all the new industrial buildings with nearly identical features in terms of clear heights, dock



Hiffman National believes its workplace experience app can be as valuable for warehouse users as for those in office settings.

Courtesy of Hiffman National

In Touch With Tenants



Screen captures show how Hiffman HQ has been customized for one of the industrial properties that Hiffman National manages.

Courtesy of HqO and Hiffman National

doors and office space. The Hiffman HQ app offered one way to do that. Potential tenants recognize the app's possibilities for fostering a sense of community, boosting morale and productivity, and aiding recruiting and retention efforts.

One institutional client said the app helps in meeting some of its ESG requirements because it connects warehouse workers with wellness activities such as online fitness classes, brain teasers and desk exercises. Data on app usage in these areas can be measured and reported.

Increased satisfaction: More people are working in industrial properties that are being used in a variety of ways that go beyond traditional manufacturing and storage. As a result, a more diverse tenant base has emerged, powered by skilled laborers whose wants and needs are like those of the typical office worker.

Several years ago, Hiffman National started organizing tenant experiences for industrial users and received positive feedback on its effect in the workplace. The Hiffman HQ app helps in communicating and promoting even more community-building activities, which typically isn't done in the industrial environment.

Improved net operating income: The workplace experience app supports elements crucial to increasing a building's NOI, including process improvement and tenant satisfaction. In addition to responding to Hiffman National's formal surveys, tenants can provide feedback through the app on everything from building operations and real estate concerns to the performance of vendor partners. These insights help ensure Hiffman National's management teams are delivering value, efficiency and reliability for clients. If the tenant feels valued and heard, they're more likely to feel good about staying in the space, resulting in increased lease renewals.

In Touch With Tenants

Getting Started

Firms exploring their own custom experience apps can take the following steps to identify the platform best aligned with their needs and the needs of end users:

Gather ideas from landlords. Meet with building ownership to better understand their pain points and how to proactively address them. Hiffman National began meeting with clients 18 months ahead of the app development process to customize the platform to their needs. This led to the app's pillars of education, engagement and wellness.

Shop around and customize. After identifying desired features, find the right technology partner to deliver them. With HqO, Hiffman National was able to white label the app as Hiffman HQ, which reinforces the company's brand. The company also wanted the app to serve as a one-stop shop to place a work order, book a conference room, participate in online fitness classes, access lifestyle-oriented content, and coordinate food delivery and rideshare services. Hiffman HQ is tailored to each location, with a community event calendar and discounts to nearby businesses.

Negotiate pricing. Workplace experience apps began in the office sector, where the technology is priced per square foot. That model doesn't make sense for industrial real estate because a 1 million-square-foot industrial building might have only five people who use the app. Through negotiation, Hiffman National was able to secure portfolio-based pricing.

Measuring Results

As of February, Hiffman National had about 500 users sign up for the app out of 2,200 tenants across four product types, including 432 individuals on the office side and 48 on the industrial side. Not surprisingly, office buildings had the highest sign-up ratio, likely because the technology is more familiar to those employees. Industrial had the second-highest level of engagement, underscoring the demand for building apps in warehouse settings.

Consult with a technology attorney. Before signing on the dotted line, consult with an attorney who has experience with software agreements. Hiffman National engaged a legal expert to ensure the agreement protected its long-term interests and security.

Absorb the expense. An all-encompassing technology fee has always been part of Hiffman National's management services, covering mostly other technologies in areas such as accounting and work orders. While the Hiffman HQ app adds about $30 per quarter to its clients' technology fees, Hiffman National is absorbing most of the expense of developing and maintaining the app because the company sees it as a differentiator for its business.

Incentivize and promote usage. When Hiffman HQ was launched, the first 200 people who downloaded the app were entered into a raffle, with 20 winners each receiving a $25 gift card. The company also offered incentives for the property management team that got the most users to sign up. Hiffman National employees visited their industrial properties and showed tenants how to download and use the app. This created a touchpoint that is especially important for industrial clients, who do not typically have experience with tenant experience apps. Ongoing outreach is critical to increasing engagement and introducing the platform to new tenants or employees who were not present during the initial rollout.

Why Industrial?

Industrial landlord and tenant expectations are higher now than before, and property managers must anticipate shifting expectations. Whether a client has a 100,000-square-foot office property or a 1 million-square-foot warehouse, they bought the building as an investment.

Hiffman National launched Hiffman HQ believing that it will drive building performance and, in doing so, allow the company to scale relationships with current clients and attract new ones. While the user data is still coming in, it is clear this investment is already paying dividends. ■

Relevant Research

In 2023, the NAIOP Research Foundation commissioned KSS Architects to produce "Designing for Wellness in Distribution," a report that offers design recommendations to improve occupant well-being. The authors conducted secondary research, observed conditions in distribution centers and interviewed occupants to collect information on key wellness concerns. They then drew from these findings to design a prototype distribution center with elements and features that contribute to a healthier and safer work environment. Download the report at naiop.org/research-foundation.

Carrie Szarzynski is senior managing director and head of management services at Hiffman National.

Seven Strategies for Minimizing Legal Costs in Commercial Landlord-Tenant Disputes

Property owners can often take practical steps to avoid disagreements turning into litigation.

By Howard Koh, Meister Seelig & Fein

Engaging a landlord-tenant attorney is often a distressing necessity for property owners. It typically signifies a deterioration in the landlord-tenant relationship, whether due to nonpayment of rent, improper use of the premises or other disagreements. These issues often stem from unmet expectations — perhaps a tenant's business is underperforming or unforeseen complications have arisen during property build-outs.

Regardless of the cause, resolving such disputes invariably incurs costs. This article outlines seven strategies property owners can adopt to minimize expenses when conflicts with commercial tenants arise.

1. Prioritize Lease Clarity During Drafting.
A well-drafted lease is the foundation for preventing disputes. Effective leases incentivize compliance and dissuade breaches by clearly delineating consequences for nonperformance. For instance, provisions addressing late payments should specify legally enforceable penalties.

Advanced lease drafting can also mitigate conflicts over variable charges, such as real estate taxes or operating expenses. Clear mechanisms for calculating and communicating these charges reduce the likelihood of disputes stemming from unexpected financial obligations. Additionally, enforceable liquidated damages clauses can deter tenants from breaching leases for financial gain. However, care must be taken to ensure such clauses are reasonable and not deemed unenforceable penalties by a court.

2. Maintain Accurate and Comprehensive Records.
Meticulous record-keeping is essential in litigation. In most cases, the trier of fact will be a judge, as many commercial leases include jury waiver clauses. Judges, who often manage heavy caseloads, appreciate clear, error-free documentation. Ensure that financial records and tenant notices are accurate and internally consistent. Avoid altering claims during litigation, as such changes necessitate additional explanations, increasing legal fees and the risk of disputes over accounting accuracy. Strong, comprehensible records bolster credibility and minimize opportunities for tenants to contest claims.

3. Communicate Effectively and Proactively.
Open, honest communication fosters better outcomes. Inform tenants promptly of necessary repairs or any inability to address their requests, and ensure that all communications are documented in writing. Even if clear communication does not resolve the issue, it establishes the landlord as the reasonable party in the eyes of the court, which can reduce legal costs.

4. Adhere to Professional Advice.
Engaging experts such as architects or engineers demonstrates due diligence. Following their recommendations provides a strong defense, showcasing the landlord's commitment to maintaining the property responsibly. Ignoring expert advice, however, exposes landlords to scrutiny and undermines their credibility. If professionals are retained, their guidance should be followed to avoid unnecessary complications in litigation.

5. Implement Standardized Policies and Procedures.
Uniform policies and procedures streamline operations and mitigate potential legal challenges. Standardized approaches serve as checklists, ensuring critical steps are not overlooked, and demonstrate consistency in tenant treatment. This reduces the risk of allegations of disparate treatment, which can complicate litigation and increase legal costs.

Even if clear communication does not resolve the issue, it establishes the landlord as the reasonable party in the eyes of the court, which can reduce legal costs.

6. Invest in Staff Training.
Property management often involves a team responsible for operations, accounting and tenant interactions. Comprehensive training equips staff to handle disputes effectively and avoid errors that could escalate conflicts. A well-trained team minimizes weak links, ensuring the property owner's interests are consistently upheld.

7. Balance Reasonableness With Firmness.
When negotiating dispute resolutions, landlords should aim for practical solutions that enable tenant compliance without creating untenable obliga-

tions. Unrealistic demands may exacerbate disputes, increasing damages and prolonging resolution. At the same time, landlords must enforce lease obligations consistently to prevent tenants from disregarding contractual responsibilities. Striking this balance fosters respect and mitigates the risk of disputes escalating.

Taking a Proactive Approach

Legal disputes are an unwelcome but sometimes unavoidable aspect of property ownership. By proactively addressing potential issues through clear leases, thorough documentation, effective communication and consistent enforcement, landlords can reduce the likelihood of conflicts escalating into costly litigation. When disputes do arise, adhering to these strategies can help contain legal expenses while protecting the landlord's interests. ■

Howard Koh is a partner and commercial litigator at Meister Seelig & Fein.

sturti/E+ via Getty Images

Building a Team to Capitalize on 1031 Exchanges

Investors should approach the process with a clear understanding of IRS regulations.

By Julie Baird, First American Exchange Company

With nearly $1 trillion in commercial real estate loans maturing this year, as reported by S&P Global, a wave of distressed properties is expected, while historic lows in construction starts and supply constraints could drive long-term potential for property value growth. For investors looking to reposition their portfolios, defer capital gains taxes and capitalize on resilient asset classes or high-growth markets, 1031 exchanges can provide a pathway.

Since the 1920s, 1031 exchanges have supported economic growth by allowing tax deferral on reinvestments in like-kind properties. Despite stubbornly high interest rates, 1031 exchanges offer real estate investors flexibility that traditional debt financing often cannot match, enabling buyers to secure opportunities now and refinance under better conditions later. To assist them in making informed decisions and maximizing the benefits of 1031 exchanges, investors can consider engaging a team of professionals consisting of lawyers, tax advisers, real estate experts and qualified intermediaries.

Investors interested in repositioning their portfolios can look into 1031 exchanges as one potential pathway.

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Streamlining the Process

Navigating the applicable rules and regulations can be overwhelming for a first-time 1031 exchange investor. A qualified intermediary or "QI" simplifies and streamlines the process by providing the necessary resources and framework to document the exchange.

A key requirement for a successful exchange, as outlined in the Treasury regulations (26 CFR Sec. 1.1031(k)-1), is avoiding actual or constructive receipt of funds from the sale of the relinquished property. Constructive receipt occurs when the taxpayer has control of or rights to the funds, even indirectly. To prevent this, a QI establishes a "safe harbor" exchange, shielding taxpayers from constructive receipt through an agreement that restricts their access to proceeds during the exchange. This safeguard offers significant value by supporting compliance while reducing uncertainty.

IRS rules prohibit "disqualified parties" from acting as a QI for a taxpayer. These are parties who have performed services for the taxpayer anytime during the two-year period prior to the date the relinquished property was sold, unless those services are limited to the client's 1031 exchange. Therefore, a QI company provides a service that many taxpayers' trusted contacts — including their attorney, their employees, their investment banker or broker, a related party or anyone with an agency relationship to the taxpayer — usually cannot.

The QI also coordinates all required documentation, provides informational resources, guides the client through the 1031 process and points out potential issues or risks. At the time of sale of the taxpayer's relinquished property, the QI is assigned into the contract between the taxpayer and the buyer and assumes all seller's rights under the contract to receive payment for the property

A key requirement for a successful exchange is avoiding actual or constructive receipt of funds from the sale of the relinquished property. Constructive receipt occurs when the taxpayer has control of or rights to the funds, even indirectly.

from the buyer. The QI then instructs the person preparing the transfer deed to directly deed the property from the taxpayer to the buyer. However, the QI directly receives the funds from the closing of the sale. All instructions and documentation necessary for this portion of the exchange, along with coordination of the 1031-related components of the sale, are prepared and conducted by the QI (with assistance from any of the taxpayer's chosen tax advisers, attorneys or real estate agents) at, or prior to, closing.

When it is time for the taxpayer to acquire their replacement property, the QI is assigned into the contract between the taxpayer and the seller, assuming buyer's rights to acquire the property and the buyer's obligation to fund the acquisition. The QI is then able to fund the purchase and instructs that the property be deeded directly from the seller to the taxpayer. The QI handles documentation and coordination of this step of the exchange, as well as documentation of the taxpayer's completion of the exchange.

Attorneys Acting as Closing Agents

In some regions of the United States, attorneys often act as closing agents for real estate transactions, handling funds during the process. However, under IRC Section 1031, taxpayers must avoid actual or constructive receipt of proceeds from the sale of the relinquished property. If an attorney serves as the closing agent, involving a QI to manage exchange funds is important to preserve tax-deferral benefits.

Attorneys should not act as the QI if they provided services to a client within the two years preceding the exchange, except for 1031-specific assistance. To comply with IRS rules, attorneys can use independent escrow companies or title insurance underwriters to handle exchange funds. If an attorney continues as the closing agent, the QI can send exchange funds directly to the seller or use a neutral third party, such as a title company or escrow agent, to manage disbursements.

The Role of the Tax Adviser

There can be significant crossover in what attorneys and tax advisers provide in the way of assistance to taxpayers, so they are sometimes lumped together and referred to as "tax advisers" when discussing 1031 exchanges.

That said, investors should consider several specific factors when working with tax profes-

A tax professional can also advise on whether the property meets the qualified use test — for example, determining if the property is technically held for investment.

sionals. A tax professional can help determine the tax basis of the property being exchanged, identify the tax consequences of exchanging or not exchanging a property, and help explore alternative options that may be helpful in the investor's particular situation. For foreign investors, this includes guidance and assistance with issues related to the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA).

A tax professional can also advise on whether the property meets the qualified use test — for example, determining if the property is technically held for investment. This is often straightforward, such as with a rental property, but it can get more complicated if the property is a part-time vacation home or personal-use property, or if only a portion of the property was used for investment purposes. A tax professional can counsel on whether these uses are sufficiently documented for exchange eligibility.

Throughout the exchange, a tax adviser can provide professional opinions on gray areas or questions that lack explicit IRS guidance, helping the investor to make more informed choices. And at tax filing time, a tax professional can review all exchange documentation, prepare the paperwork and file taxes to properly report the exchange. ■

Julie Baird is president of First American Exchange Company, a national qualified intermediary owned by First American Title Insurance Company.

Commercial Rooftop Solar: Tackling America's Energy Crisis

Some property owners are exploring a new revenue stream by generating energy for the grid.

By Shaun Keegan, Solar Landscape

The growth in AI machine learning, data centers and the electrification of the economy will more than double U.S. energy demands over the next 10 years according to some projections. Unfortunately, the nation's electric grid infrastructure is not prepared for such a transformation.

Grid congestion results in higher energy costs, delays and outright restrictions in connecting to the grid, hampering commercial real estate development and expansion.

One solution gaining traction with CRE executives is leasing commercial rooftops for new solar installations. This approach addresses energy shortages while also generating income for property owners, boosting property values and supporting local economies. Commercial rooftop solar can be built quickly, going from concept to operation in 12 to 24 months.

Commercial rooftop solar like these installations on Prologis warehouses can generate revenue, help to alleviate energy shortages and increase property value.

Courtesy of Solar Landscape

Commercial Rooftop Solar Solutions

The looming energy crisis is driving opportunities for commercial real estate owners to generate more energy for the grid while also creating a new revenue stream.

Years ago, commercial rooftop solar installations powered the building itself. This limited the size of the system and restricted its use to properties with high energy demands. With current commercial rooftop models, buildings no longer need to consume the energy the rooftop panels generate. Instead, the energy is fed into the grid, allowing property owners to receive revenue through an annual lease payment regardless of a tenant's energy needs or occupancy status.

In a typical arrangement, solar project developers lease roof space and manage all aspects of the project, including financing, ownership and maintenance of the photovoltaic installations. They also handle connecting to the grid and enrolling customers to purchase the generated electricity. This model, known as "in-front-of-the-meter," signifies a significant shift from providing power for on-site use, which is referred to as "behind the meter."

Under a rooftop solar lease, tenants are not obligated to purchase the power, although they often have the option to buy clean energy. Additionally, the energy generated by a commercial rooftop system does not get connected to the building's electrical systems, so the installation process does not disturb day-to-day tenant operations.

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A recent rooftop tour demonstrated the commercial rooftop solar partnership between Prologis and Solar Landscape.

Courtesy of Solar Landscape

Solar Landscape recently partnered with Prologis to develop and finance more than 30 million square feet of commercial rooftop solar projects. The portfolio, which spans over 50 projects across New Jersey, Maryland and Pennsylvania, supports Prologis' goal of deploying 1 gigawatt of on-site solar and battery storage by the end of the year.

Solar Landscape typically leases rooftop space for 25 cents to 85 cents per square foot per year for 20 years and invests about $20 per square foot into the systems.

Shaping the Energy Infrastructure

According to the National Renewable Energy Laboratory, corporate action can significantly influence market trends. By adopting solar energy, real estate owners can demonstrate leadership on sustainability. This makes them attractive to tenants prioritizing environmental responsibility in their business models.

"Investing in on-site clean energy solutions is integral to decarbonizing our buildings and distinguishing our real estate portfolio," said **Natasha Keefer**, vice president of energy solutions at Prologis. "These investments directly benefit our customers and the communities in which we operate while addressing the increasing energy demands of our expanding customer base."

By leveraging this infrastructure, CRE leaders are becoming power players in shaping the energy infrastructure that supports business operations. Rooftop solar has a stabilizing impact on the electric grid, providing reliable, affordable energy where it's needed most. The Brattle Group has found that commercial and industrial rooftop solar provides several times more value than rural, ground-mounted solar farms because it is installed close to where the electricity is used, minimizing the need for costly new electricity lines and system upgrades. Since the electricity doesn't have to travel far, less energy is lost, and the strain on the grid is reduced.

If CRE owners use their buildings to generate power, the less expensive energy will be, and the additional power will enable more development opportunities.

REITs alone control approximately 38.5 billion square feet of roof space in the U.S. — a largely untapped resource for solar installations. As demand for renewable energy surges, commercial real estate can drive clean energy adoption — and support the resulting environmental and economic benefits — at commercial scale through rooftop solar.

Benefits Beyond Energy Generation

In addition to addressing energy shortages, rooftop solar delivers a range of benefits for commercial real estate owners, developers and tenants.

New source of net operating income: Rooftop solar capitalizes on unused commercial roof space. In exchange for leasing their rooftops to solar developers, property owners receive lease payments that boost the bottom line. "This is a great ancillary revenue opportunity for us," said **Will Cowan**, executive vice president and chief strategy officer at National Storage Affiliates Trust. "We don't have to make a significant capital investment, and it requires minimal time and effort from us." Last year, National Storage Affiliates Trust announced that Solar Landscape would develop at least 100 megawatts of rooftop solar across 8.5 million square feet of its facilities' rooftops nationwide.

REITs alone control approximately 38.5 billion square feet of roof space in the U.S. — a largely untapped resource for solar installations.

Increased property value and marketability: JLL found in 2024 that properties with solar in North America can command a 7% higher premium. Tenants are increasingly seeking sustainable, cost-effective properties, so buildings with solar can be more attractive to potential buyers or tenants, commanding higher rents or resale values.

Supporting local communities and job creation: Rooftop solar creates positive macroeconomic benefits. By working with solar developers, commercial real estate owners can contribute to local workforce development and job creation. Hosting solar projects can also forge connections with local governments and utilities, further cementing a property's role as a community asset.

"Across our commercial portfolio, rooftop solar is a model for how to create job opportunities in addition to clean energy," said **Jennifer McConkey**, managing director of ESG and operations at Principal Asset Management.

Principal's commercial solar projects have received national award recognition from Commercial Property Executive magazine and the Institute of Real Estate Management for creating jobs and job training in the local community. By hosting solar on the roofs of its commercial warehouses in Illinois and New Jersey, Principal enabled Solar Landscape to train residents to become solar installers, resulting in trainees getting hired into full-time positions. Solar Landscape's workforce development program, known as STEP-UP, has reached more than 2,500 trainees to date.

Speed and simplicity: Unlike other forms of energy infrastructure, rooftop solar can be deployed quickly and with minimal disruption. Usually completed in months, installations allow property owners to rapidly address energy concerns.

Challenges and Site Assessment Factors

Without proper planning, commercial rooftop solar projects can face challenges. For example, there is a limit to how much power the grid can accommodate, and solar projects must apply to connect. Interconnection is awarded on a first-come, first-served basis. Therefore, it is important for commercial real estate owners to apply for interconnection early, as available capacity diminishes over time.

One of the first steps in considering commercial rooftop solar is a site assessment, which considers:

Location: Each utility offers a different energy retail rate, which drives the lease rate offered by a developer.

Roof age: Solar panels typically last longer than 20 years, so it is best to avoid installing them on older roofs or to replace the roof before installing them.

Grid conditions: Depending on where the commercial building is located, there may be challenges connecting a solar rooftop system due to grid congestion.

As energy demand increases, the viability of commercial rooftop solar empowers the commercial real estate industry to play a key role in addressing the looming crisis while generating revenue, enhancing property values and boosting its sustainability credentials. ■

Shaun Keegan is CEO and co-founder of commercial solar developer Solar Landscape.

"Across our commercial portfolio, rooftop solar is a model for how to create job opportunities in addition to clean energy."

Jennifer McConkey, managing director of ESG and operations, Principal Asset Management

The Evolution of Transit-oriented Development in Canada

The Canadian government is encouraging high-density development as one solution to housing issues.

By Andrew Petrozzi, Newmark

Over the past decade, transit-oriented development (TOD) policies adopted by all levels of Canadian government, along with the expansion of rapid transit infrastructure, have transformed urban centers across the country. However, this shift was as much a response to the pressing issue of deteriorating housing affordability as it was to congestion, environmental concerns, and a greater public acceptance of densifying areas near rapid transit systems.

In recent years, public opinion in Canada has tilted toward generally supporting the higher densities required to enable TOD, especially in cities where housing affordability has significantly worsened. Many cities have seen investment in new rapid transit lines or the expansion of existing systems to address congestion arising from rapid population growth. Most major Canadian cities are building out their rapid transit systems, which is an important (though not required) precursor to politically initiated TOD.

The Case for TOD

Investment in transit and transportation infrastructure has been demonstrated to produce significant benefits in Canada beyond reducing congestion and air pollution. It has also been linked to boosting economic activity and spending, increasing labor mobility and personal mobility, and improving public health and safety. According to a Canadian Urban Transit Association issue paper, transit investment also generates "enhanced land accessibility that increases residential and commercial values."

Transit and transportation infrastructure investment has also been shown to stimulate additional commercial and residential development around existing and new transit nodes and corridors in Canada, the U.S. and Europe. In Canada, the ongoing and proposed redevelopment of numerous large enclosed regional shopping centers that were targeted for increased densification was the first manifestation of TOD, although development was initially driven more by land costs than politics. Metro Vancouver adopted its first Regional Growth Strategy in 2011 that identified shopping centers in the region as TOD areas and permitted greater densities at these sites because of their connection to the regional rapid transit network. Construction started in the mid-2010s for many such redevelopments and continues to this day. These new urban enclaves, including The City of Lougheed and The Amazing Brentwood in Burnaby, British Columbia, and Oakridge Park in Vancouver, offer significant amenities, living space, retail opportunities and office space — all connected to the region's rapid transit network.

A similar densification and redevelopment trend followed at enclosed regional shopping centers in suburban areas of Greater Toronto such as Mississauga, Oakville, Vaughan and Richmond Hill. This also happened within the pre-amalgamation municipalities of Etobicoke, North York, Scarborough, East York and York that were either connected or more recently added to the regional subway system or the GO Transit commuter train and bus networks.

City planners have long advocated for densification around transit hubs to address congestion, environmental concerns and commuting costs. In addition, residential real estate with easy access to urban amenities is experiencing renewed popularity, in part due to shifting demographics. This is translating into increased demand — and, subsequently, higher property values — for commercial and residential developments with transit access, particularly around rapid transit lines and light rail. According to a 2018 study from the University of British Columbia and the city of Vancouver, "Land Value and Transit Investment: Case Studies and Analysis for the Broadway Corridor," a meta-analysis conducted using 57 observations concluded that "commercial properties within a quarter mile (402 meters) of the station are 16.4% higher than those outside the quarter-mile zone, while the premium for residential was 4.2%."

Current Rapid Transit Investments in Canadian Cities

In metro Vancouver, TransLink's SkyTrain is expanding its regional rapid transit system into additional suburban communities south of the Fraser River with a 16-kilometer extension of the Expo Line, as well as tunneling under the Broadway corridor within Vancouver city limits for a 5.7-kilometer extension of the Millennium Line. Also proposed is a 6-kilometer extension of the Millennium Line that would connect to the University of British Columbia on Vancouver's west side. One of the larger private-sector projects planned along these transit expansions is PCI Developments' The Stories at South Granville Station, which is being integrated into the new station being built as part of the Broadway extension. The 39-story mixed-use development is under construction and set for completion in 2026. The project comprises almost

A variety of transit-oriented developments have sprouted in proximity to Metro Vancouver's SkyTrain.

Wirestock via iStock Editorial/Getty Images Plus

30,000 square feet of retail, 100,000 square feet of office space, more than 15,000 square feet of amenity space and 270 homes.

In the Toronto region, Metrolinx, an agency of the Government of Ontario, has several rapid transit expansion projects underway. These include the 19-kilometer Eglinton Crosstown Light Rail Transit (LRT) line (Line 5), the 11-kilometer Finch West LRT line (Line 6) and the biggest and most expensive rapid transit project in Canadian history, the 15.5-kilometer Ontario Line (Line 3). Additional extensions are also in the works for Yonge North Subway, Scarborough Subway and Eglinton Crosstown West. A future 18-kilometer line (Eglinton East LRT) has also been proposed.

Much of the TOD in Greater Toronto is still in the planning/preconstruction phases. The revised proposal for a new mixed-use development at 808 Mount Pleasant Road, in a newly designated Protected Major Transit Station Area (PMTSA) along the Eglinton Crosstown LRT, was increased to 61 stories this past December. Now with 896 homes (nearly double what was originally proposed in 2017) along with increased retail and amenity space, the scope of development increased as a direct result of the province mandating higher densities close to rapid transit stations in 2021. This led Toronto to create PMTSAs and Major Transit Station Areas at existing and future transit stations to permit larger redevelopments. The Mount Pleasant station is located directly south of this proposal and is anticipated to open later this year.

Phase one of Calgary's proposed 46-kilometer Green Line LRT, the largest infrastructure investment in the city's history, started construction in late 2024. Edmonton's 13-kilometer Valley Line Southeast opened in November 2024, while construction on the 14-kilometer Valley Line West entered its third year in 2024. Construction on phase one of the 4.5-kilometer Capital Line South will begin this year. Montreal commenced construction last year on a 6-kilometer extension of the Metro system's blue line, which will add five new stations in the city's east end when it becomes operational in 2029.

TOD Policy

In announcing its $30 billion Canada Public Transit Fund (CPTF) last summer, the Canadian government made it clear that increasing density along transit is a priority. "The [CPTF] will also complement our work to build more homes faster," read a government press release. "Through programs like the Housing Accelerator Fund, we're giving cities and towns more money to build more homes — but with a condition: if municipalities want federal funding, they have to change their zoning by-laws to build more housing near transit."

While these changes are occurring in municipalities across Canada, two primary examples of recent TOD policies can be found in Toronto and Vancouver. Infrastructure Ontario's Transit-Oriented Communities (TOC) program, a key component of the provincial government's New Subway Transit Plan for the Greater Toronto Area, aims to create "more housing and jobs near or at transit stations along the routes of the province's four priority subway projects, including the Ontario Line, the Yonge North Subway Extension, the Scarborough Subway Extension, and the Eglinton Crosstown West Extension."

The city of Toronto and the Ontario government signed a memorandum of understanding on the TOC program effective Feb. 14, 2020. The shared objectives include:

- "The creation of complete and accessible communities, with employment and residential densities that support higher-order transit in a manner consistent with good land use planning and city-building principles;
- "An increase in the housing supply, with a range and mix of types that are responsive to the specific context and nature of each unique TOD site, including affordable housing and other types;
- "Growth in potential transit ridership and improvements/enhancements to the customer experience, as a result of direct access to rapid transit and connections to surface transit;
- "Increased transit access for residents to employment areas, while further supporting employment growth;
- "An offset of the costs of building and/or operating transit; and,
- "The coordinated delivery of GO Expansion/SmartTrack and the Provincial subway projects with integrated TOC initiatives that adhere to the committed project schedules, and that optimize the use of City resources."

An April 2024 update from the city of Toronto on the TOC program with Infrastructure Ontario reported that the city has reviewed proposals for nine Ontario Line stations and one station along the Scarborough Subway Extension, with additional TOC proposals anticipated over the next two to three years.

The province of British Columbia has taken a more prescriptive approach in the past year or so, directing municipalities (including Vancouver) through legislation to incorporate a TOD approach into their land-use planning. Legislation will require some municipalities to designate TOD Areas near transit hubs. In these areas, local governments are required to ensure that minimum levels of density, size and dimension are allowed; allow parking requirements to be determined by market demand; and consider provincial policies when planning or amending zoning bylaws.

A transit stop along the Eglinton Crosstown LRT line, one of several rapid transit expansion projects ongoing in the Toronto region.

Bob Hilscher via iStock Editorial/Getty Images Plus

A Transit-oriented Outcome for Canadian Cities

TOD has been shown to generate economic benefits for communities as well as for developers and property owners. Government at various levels is now embracing this form of mixed-use, high-density development as a quicker, less expensive and increasingly noncontroversial way for both the public and private sectors to develop more homes and reduce congestion in Canada's increasingly traffic-snarled urban centers. ■

Andrew Petrozzi is director and head of Canada research at Newmark.

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The Office Market 2025: Turning the Corner

A rendering of The Republic, a 48-story, 830,000-square-foot office tower scheduled to open later this year in Austin, Texas. Duda | Paine Architects designed the project in collaboration with HKS for Lincoln Property Company.

Duda I Paine Architects/HKS

While the story isn't the same across the board, **signs point to the office market stabilizing and taking small steps toward recovery.**

By Ron Derven

AT A GLANCE

Office markets and **submarkets** are in different **stages** of recovery.

Office tenants' flight to **quality may** soon result in a **lack of tro**phy inventory.

Older office properties are **frequently c**andidates to be **converted** or torn down.

The COVID-19 pandemic remade the way we work and left the office market reeling. As remote work became the norm, office vacancies soared, careers stalled and buildings sat in darkened gloom. However, according to recent interviews with industry professionals, this troubled property sector is showing signs of renewed life and even the makings of a recovery.

Uneven Recovery

North American office markets are in different stages of recovery. While New York City is seeing big leases signed, West Coast markets such as Los Angeles, San Francisco, San Diego and Seattle have been slow to recover. "The West Coast is better than it was last year or two years ago, but recovery is lagging over what we see in the East or even in the Sunbelt," said **Michael Soto**, vice president, research West at Savills.

Raymond Wong, CRE, vice president at Altus Group in Toronto, said that based on fourth-quarter numbers for 2024, it appears the market is plateauing overall, although some markets are still declining. "The main challenge remains the relatively high office vacancy rate," he said, "but we're beginning to see signs of a peak in those numbers."

In the U.S., a CBRE market report noted that net absorption of office space totaling 10.3 million square feet in the fourth quarter of 2024 was the highest quarterly total in three years. It was also the third consecutive quarter of positive demand. Meanwhile, space under construction at year-end fell to 24 million square feet, less than half the amount from a year earlier. The overall vacancy rate in the fourth quarter declined slightly to 18.9%

According to another CBRE report, the Canadian office market in 2024 recorded its first year of positive net absorption since 2019.

"It's important to note that the 19% vacancy [in Q3 2024] is not spread evenly across markets," said **Julie Whelan**, global head of occupier research at CBRE. "Major gateway downtown markets have been hit hardest, but even within those markets, the best quality space is often outperforming the overall market metric. It is a varied story market to market and even within submarkets."

Following five consecutive quarters of shrinking demand, net absorption of office space turned positive

One North Hills, a 10-story office tower designed by Duda | Paine Architects for Kane Realty Corporation, is located in the heart of the North Hills Retail District in midtown Raleigh, North Carolina.

Duda | Paine Architects

in the second and third quarters of 2024, according to the NAIOP Research Foundation's Office Space Demand Forecast. Although it is still possible that a recession could delay a recovery, recent trends suggest the office sector is stabilizing and that demand for office space will grow modestly in 2025, according to the report.

Trophy Space Leads the Way

Trophy spaces, with their state-of-the-art amenities, are dominating the office market. Tenants are generally willing to pay higher rents to secure these premier spaces, aiming to entice employees back to the office. But this flight to quality may soon result in a significant shortage of space, as much of the existing trophy inventory is leased and planned projects remain fallow, awaiting financing.

"Our prediction is that within a few years, [trophy buildings] will essentially be out of space," Whelan warned. This looming scarcity highlights the need for upgrades in the next tier of office properties to meet tenants' high expectations.

"This supply shortage means companies seeking high-quality spaces should act quickly," said **Amber Schiada**, head of work dynamics research for the Americas at JLL. "Tenants waiting too long may face limited options in the next three to five years."

Mike Watts, president of investor leasing in the Americas at CBRE, underscored that tenants are becoming more selective. "Demand isn't just for premium finishes but also for convenience, accessibility, and locations that align with workforce needs. Even newly constructed offices can sit empty if they fail to meet these criteria," he said.

Consider New York City. Employees commuting by train from Westchester County or Connecticut arrive at Grand Central Station, where nearby trophy-class office buildings offer an ideal commute. In contrast, premium offices located downtown or on Manhattan's west side can add another 45 minutes to an hour of travel time each way. Unsurprisingly, proximity is a key factor driving demand for certain trophy spaces.

As trophy space becomes scarce, mid- to large-size occupiers are turning to A and A-minus properties, explained **Danny Mangru**, U.S. office lead for market intelligence at Avison Young. Even

Trammell Crow Company is developing Stratus Midtown in Atlanta. Duda | Paine Architects designed the 30-story office tower, which will feature private terraces.

Class B and C buildings are benefiting. Mangru observed that leasing activity in these categories grew from 29% in 2023 to nearly 32% in 2024. While these spaces may require upgrades, they are increasingly seen as viable alternatives for tenants unwilling or unable to compete for premium properties.

This shift reflects a broader rebalancing in the office market, where the demand for quality workspace extends beyond the top of the market. For developers and investors, opportunity exists in repositioning lower-tier properties to meet evolving tenant expectations.

Getting a Handle on Hybrid Work

Hybrid work in some form is likely here to stay. While some tenants have used this opportunity to downsize their office requirements, others are maintaining their existing spaces and adding amenities to inspire employees to come into the office and to better accommodate varied schedules.

"The pandemic fundamentally upended everything we know about how we work," Schiada said, "Remote work became possible, and employees experienced greater flexibility and improved work-life balance. This has led to significant resistance to returning to the office full time."

Many organizations are working to redefine the office's value proposition to encourage employees to return more frequently, she said. "[JLL's] research shows that 44% of global real estate decision-makers now mandate five days a week in the office — up from 34% two years ago. However, the average office attendance is still around three days per week."

Subleased Space: Stabilizing

The amount of sublease space available during the pandemic was deeply troubling, but those conditions are easing, according to Cushman & Wakefield's fourth-quarter 2024 U.S. office report, which noted that sublease inventories have declined for three straight quarters.

"Key indicators suggest improvement," Mangru said. "Supply is decreasing, sublease space is dwindling, and leasing activity is picking up in key markets like Manhattan. Office utilization is also rising, signaling increased demand."

Harry Klaff, principal and U.S. president of Avison Young, said, "We're seeing longer lease

Duda | Paine Architects

"We're seeing longer lease terms, which could support financing for new developments. While construction is limited now, we anticipate demand for new top-tier spaces in high-demand areas."

Harry Klaff, principal and U.S. president, Avison Young

Courtesy of iQ Offices

Coworking spaces, such as this one from iQ Offices, are striving to meet workspace occupiers' evolving needs through a combination of flexibility, design and hospitality.

terms, which could support financing for new developments. While construction is limited now, we anticipate demand for new top-tier spaces in high-demand areas. I expect the office market to be in a far better position next year and even better two years from now."

Tenant Concessions

At present, it continues to be a buyer's market, with lessees able to get major tenant improvement dollars to either stay in their current offices or move to a new location.

An Avison Young U.S. office market report showed that the average value of concessions as a share of U.S. lease terms was 26%. This means a tenant paying $100 per square foot will, on average, receive $26 per square foot in concessions per year in the form of free rent and tenant improvement allowances.

Concession packages have grown every year since the beginning of the pandemic in 2020 and were up 6.8% in 2024 compared with 2023, according to Avison Young.

The Coworking Space Comeback

During the pandemic, the last thing office workers wanted was to share a tight space with someone else. That fear has largely subsided. In fact, coworking spaces are experiencing a resurgence as companies and workers seek flexible solutions.

"We are bullish on flexible space," Klaff said. "Flexible space arrangements, including coworking, are becoming increasingly important. Tenants want to save costs and adapt to changing needs. Many landlords are incorporating flex options like tenant lounges and reservable desks. In Manhattan, some coworking operators are leasing entire buildings, offering tenants a combination of coworking services and dedicated spaces."

"The flight to quality in office spaces is about more than just premium buildings or locations," said **Kane Willmott**, co-founder and CEO of iQ Offices, the largest Canadian-owned co-working operator. "It's about creating holistic experiences that drive engagement, productivity and meaningful ROI on workspace investments. Coworking spaces are leading this charge, blending flexibility with thoughtful design and hospitality to meet the evolving needs of today's workspace occupiers."

Obsolete Office Buildings

In the current office bust, newer buildings are likely to survive and prosper while older buildings try to find a path forward. In some cases,

Granite Park 6, a mixed-use office development outside of Dallas owned by Granite Properties, includes a lecture hall and conference center with theater-style seating.

G.LYON PHOTOGRAPHY

companies in aging buildings are satisfied to get a break on their rent and then use the saved money elsewhere. Owners of older office buildings might be able to carve out a niche as the primary low-cost providers in their markets and still make a profit. In other cases, however, the only feasible options might be to convert an old office building to another use or tear it down.

"Older office buildings are what's driving a lot of the availability in key markets," Soto said. "There are buildings that are no longer competitive, and for a lot of landlords this is on a building-by-building basis. Some landlords will tell you, 'We have no debt on a particular older building, so we are OK being the low-cost provider in the market.' But on other buildings, the landlord might conclude there is simply no justification for the property to continue as an office building."

Soto pointed to New York City as an example of what is happening with older buildings. He said many major financial services firms have relocated to Midtown, favoring modern and newer office spaces, particularly near Grand Central Station. Meanwhile, in Lower Manhattan, older office buildings are being converted into residential properties, often of the high-end variety. "This trend is happening nationwide, but converting office buildings in CBDs [central business districts] remains a tough challenge and an expensive undertaking," he said.

Opportunistic investors are increasingly focusing on suburban areas for such conversions. For example, around Los Angeles, suburban office buildings located in industrial zones are often more suitable for redevelopment, with some being demolished and replaced by warehouses, Soto said. Suburban office buildings that are either underperforming, have a high vacancy rate, or have lost a major longtime tenant are primary targets for conversions and redevelopment, he added.

Residential conversions are often the highest and best use for obsolete buildings, especially in cities with housing shortages. However, not every building is suitable for conversion

"Some landlords will tell you, 'We have no debt on a particular older building, so we are OK being the low-cost provider in the market.' But on other buildings, the landlord might conclude there is simply no justification for the property to continue as an office building."

Michael Soto, vice president, research West, Savills

Granite Properties

Developed by Granite Properties, 23Springs is scheduled to open in Dallas this spring. The 26-story office tower will include amenities such as a fitness center, a golf simulator, an outdoor lounge and on-site restaurants.

"Buildings that have outlived their usefulness will likely be converted or removed from the market, thus lowering inventory. I am slightly optimistic, and I think we are heading in the right direction regarding the office market."

Raymond Wong, vice president, Altus Group

due to high costs, fundamental structural differences and zoning challenges. Other potential uses include health care facilities or boutique hotels or tearing them down to create green spaces, Klaff noted.

"Class B and C offices are struggling," said **Bryan C. Connolly**, partner and co-chair of U.S. real estate practice at DLA Piper. "Strategies depend on the owner and location. Some explore conversions to residential or mixed uses, while others restructure or hold out for better conditions. Some properties are so obsolete they're not attractive for further investment."

Investors, Bankers and Regulators

After the pandemic, the office market was hit with a variety of other negatives: high inflation followed by high interest rates, the threat of recession, distressed assets and discounted acquisitions.

"The rise in interest rates has impacted commercial real estate construction costs and financing, while also pushing cap rates higher, which has significantly affected property values," Connolly explained. The Federal Reserve's decision to lower rates three consecutive times beginning last September— and what that indicates for future interest rate reductions — has encouraged the industry, he said.

"The hope, supported by data, is that inflation is being contained. This supports the decision to continue lowering interest rates. If inflation stays under control, we anticipate a more favorable environment for real estate investment going forward," Connolly said.

Regarding loan refinancing, "It varies depending on the asset class and type of loan," Connolly continued. "Multifamily and industrial properties have performed well and can often refinance and reposition themselves. Class A+ office properties have also done well. However, other office products have struggled,

The interior of McKinney & Olive, a 558,000-square-foot Class AA office building developed by Granite Properties in Dallas.

Jeffrey McWhorter

with some owners giving properties back to their lenders or pursuing other workout options."

Office Market Outlook

There is optimism that the office market will finally turn around in 2025, although the degree of uncertainty remains high. One thing is clear, however: Developers, investors and owners who embrace flexibility, modernization and innovation will be the primary drivers of success in the market. Here are some takeaways from industry professionals:

Recovery will be slow. Soto of Savills believes the U.S. office market is heading in the right direction. "We are in a better position than we were two years ago, though we're not back to 2019 levels yet," he cautioned. "Progress will happen gradually."

The office market is more stable than in the past 24 months. However, companies are still trying to decide how much space they need. "Buildings that have outlived their usefulness will likely be converted or removed from the market, thus lowering inventory," said Wong of Altus Group. "I am slightly optimistic, and I think we are heading in the right direction regarding the office market."

Big companies are making long-term commitments. Law firms, hedge funds and consulting companies are making large, long-term lease commitments. "We hope and expect other sectors and industries to follow as they figure out their actual space requirements and feel confident about their needs," said CBRE's Watts. "In a quick straw poll I did with our top tenant representation brokers — those working with the major tenants — 100% believed that leasing activity next year would be better than at the same time this year. That's not overly bullish, but the trend suggests more companies are ready to make longer-term commitments."

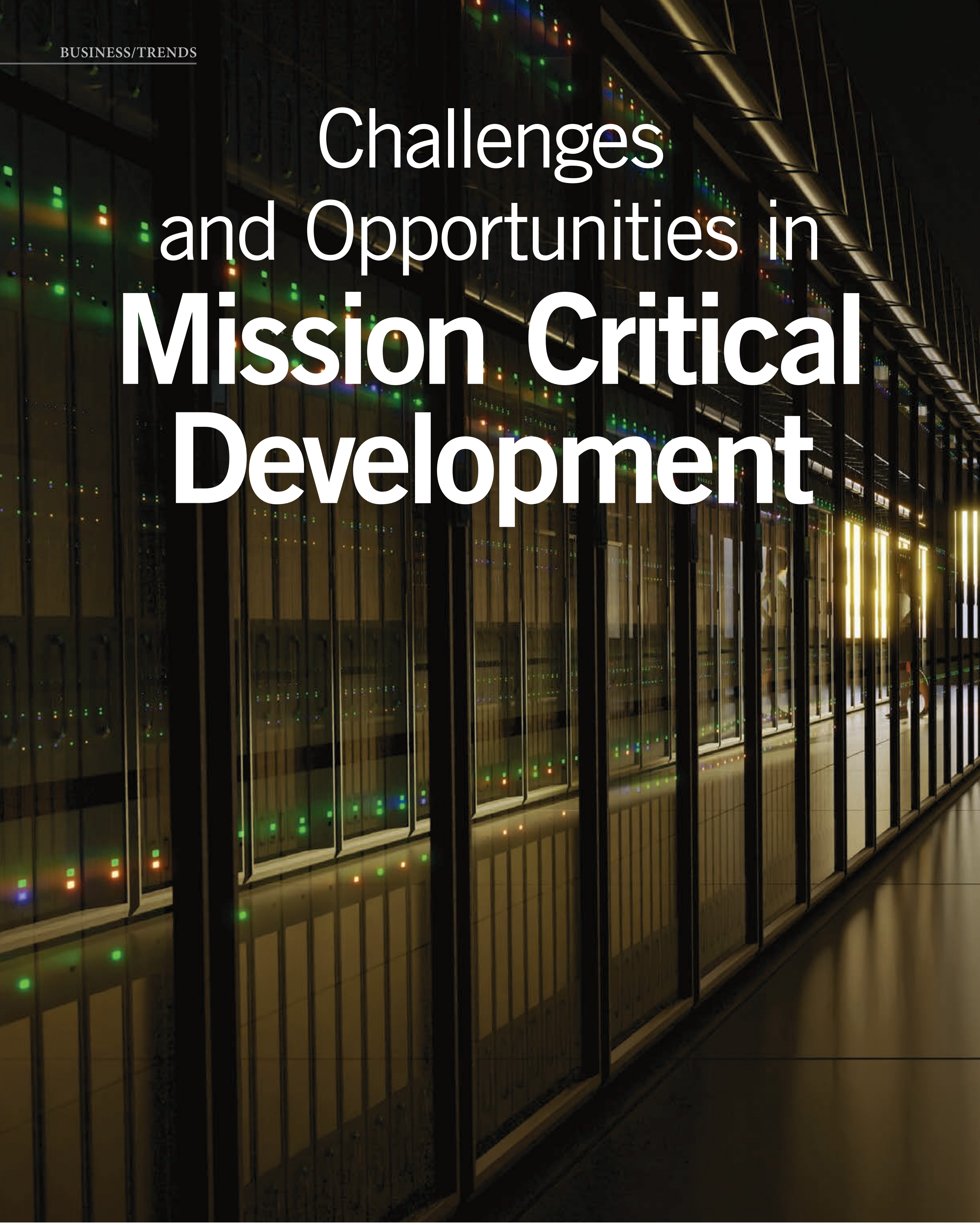
Occupiers are moving to expand space. "While some contractions are still happening, there are far fewer, and many more occupiers are moving into expansion territory," said CBRE's Whelan. "When you combine that with general renewals and the natural churn in the market — where companies need to find space as leases roll over — it feels like we're in a good position" heading into 2025.

The availability of top-tier space is dwindling. A consistent sentiment expressed by industry professionals interviewed for this article is that tenants should not delay their decision-making regarding office space. "While the office market may seem slow, high-quality spaces are in short supply," cautioned Schiada of JLL "Companies aligning their office portfolios with business growth plans and talent needs should act now to secure the best locations. The competition for top-tier office space will intensify as supply remains constrained, making early decisions a strategic advantage."

Lower interest rates will help drive transactions. "For commercial real estate overall, we're optimistic. Lower rates and ready capital should drive investment and transactions," said Connolly of DLA Piper. "For the office asset class, the outlook is less clear, though recent data indicates that office vacancy rates may have bottomed out, offering hope for increased occupancy in the coming years." ■

Ron Derven is a contributing editor to Development magazine.

Challenges and Opportunities in Mission Critical Development



Peter Hansen via iStock/Getty Images Plus

The promise of functional AI has added complexity and urgency to the delivery of data centers.

AT A GLANCE

Mission critical development involves projects such as data centers where uninterrupted operation is crucial.

Power availability and long lead times for essential equipment are among the challenges associated with mission critical work.

ChatGPT sparked a new surge in demand for AI infrastructure.

Since 1992, Ryan Companies has built mission critical data centers. Currently, the company is building or developing more than $5 billion in data center projects across the United States. **Todd Johnson**, director of real estate development for Ryan's mission critical sector, recently sat down for an interview to discuss the complexities of this fast-growing area of specialization.

Development: *For those who don't know or are unclear, can you describe common or popular types of mission critical projects?*

Johnson: "Mission critical" refers to any project that requires minimal downtime and failure, as people depend on it to some extent. Examples include operating rooms, data centers and laboratories.

There is a significant level of detail involved not just in the planning stages and in securing the necessary infrastructure, including its redundancy, but also in the execution phase. Safety, quality assurance and meticulous attention to detail are crucial in how everything is assembled. All these aspects must be 100%

Todd Johnson began working in hyperscale data center development in 2016.

Courtesy of Ryan Companies

"In 2023, the fuse was lit on AI, and Ryan jumped to building full campuses of hyperscale data centers with a scope that included the full shell and MEP buildouts."

Todd Johnson, director of real estate development for the mission critical sector, Ryan Companies

accurate, and the client is closely observing the process to ensure that all components are aligned with their needs and goals.

Development: *What drew you to mission critical real estate?*

Johnson: I have been in commercial real estate for 34 years as a developer, broker and corporate real estate professional in various roles and companies. In 2016, my neighbor worked as a transaction manager for a company with a worldwide presence in cloud computing solutions. I had no idea what it all entailed, but in researching the broader cloud computing industry, I found it very intriguing. So on Halloween 2016, I started my adventure in hyperscale data center development on the user/tenant developer side.

Fast-forward to March 2024, and it was time to find a new opportunity. I was considering making the logical transition to the third-party development side of things. I determined Ryan was best positioned because of the people it had in place, the reach of its 17 offices across the country and its capabilities. I took it as a gentle nudge that Ryan has been in the mission critical sector for as long as I have been in commercial real estate.

Development: *Please describe what Ryan is doing now in the mission critical space.*

Johnson: Mission critical brings the level of detail and failproof to a higher standard. Ryan has rolled with the trends in data centers, first building on-premises data centers, engaging in MEP (mechanical, electrical and plumbing) upgrades, and building a prototype freestanding data center for a top tech company. In 2023, the fuse was lit on AI, and Ryan jumped to building full campuses of hyperscale data centers with a scope that included the full shell and MEP buildouts. Ryan is now underway on multiple campuses exceeding 1 million square feet across the United States. We are present in the various components of mission critical development. We have ground-up developments happening in multiple states. We also have $2.5 billion in ongoing third-party general contracting work building hyperscale data center campuses.

But our approach is unique because we are not just building the shell; we are building the project starting at the electrical feeders that come from the substation, the site work, the medium-voltage switchyard, the MEP serving the data halls, the racking for the data halls, right down to the whips (the power source for the servers). We currently have 27 projects in our portfolio.

***Development:** What are some of the challenges associated with mission critical work?*

Johnson: There are unique challenges with mission critical projects, including power availability. The more significant challenge with getting developments built and rent flowing is the lack of the most critical equipment needed: electrical gear. For most buyers, there is a minimum three-year delay — and as much as five years in some instances — for necessary components. However, there's often an opportunity to prioritize your project to find new suppliers and to accelerate your time frame through leveraging the client's supply chain advantages.

***Development:** What key factors contribute to the successful development of mission critical projects?*

Johnson: The most important aspect is not to assume you know what the customer wants. There are some basics, but beyond that, you should be open and flexible to what the customer needs to be successful and timely. Of course, communication is key to unlocking and navigating toward a successful outcome.

***Development:** What trends do you currently see or predict in the future regarding the mission critical space?*

Johnson: There will be some fallout of companies trying to chase this product. There's a lot of money being thrown at the segment right now to buy land, leading to overpaying and assuming risk that will often lead to project failure. It is important to understand this early on so we don't get caught up in the fever. Don't follow others; lead with solutions and focus on relationships.

Understanding the current and potential future issues related to hyperscale development is essential. For instance, despite the general optimism, I must highlight the challenge of long lead times for essential equipment. If we don't address this issue proactively, we risk delayed rent starts. It's important that we confront this situation directly and in advance.

Companies that adopt the right practices will find significant opportunities. However, identifying the issues can be challenging. Due to the rapidly evolving nature of this business, there is no definitive playbook.

***Development:** Why is there such a long wait time for electrical gear and other components needed for mission critical projects?*

Johnson: Late 2022 marked a turning point in demand for AI infrastructure, spurred by the capabilities of ChatGPT, which caught Wall Street's attention. This prompted a scramble for resources as AI demand surged, increasing at least fivefold compared to the previous data center boom. The equipment shortage arose from unpreparedness

"There will be some fallout of companies trying to chase this product. There's a lot of money being thrown at the segment right now to buy land, leading to overpaying and assuming risk that will often lead to project failure."

Todd Johnson

A rendering of a data center campus from Ryan Companies, which has 27 mission critical projects in its portfolio.

Courtesy of Ryan Companies

“I’ve gathered grassroots data by talking to industry professionals about successful AI use cases. The feedback has been overwhelmingly positive. It demonstrates that AI can truly implement strategies that help achieve goals.”

Todd Johnson

for this rapid growth, leading the Big 5 users — AWS, Microsoft, Google, Oracle, and Meta — to dominate supplier production and help build new production lines. While long lead equipment timelines extend, I remain optimistic that the marketplace will eventually resolve these challenges.

Development: *Where do investors stand on AI?*

Johnson: One major question for Wall Street and end users is the return on investment for AI. Businesses often wonder if a $10 million investment can yield $50 million. But unlike traditional software, AI gives us proactive engagement in achieving results.

I’ve gathered grassroots data by talking to industry professionals about successful AI use cases. The feedback has been overwhelmingly positive. It demonstrates that AI can truly implement strategies that help achieve goals.

Customer success is now a key focus for software firms, and AI inherently learns to optimize outcomes. The challenge lies in guiding users and anticipating their needs, which AI does effectively address.

Development: *What types of data centers is Ryan focused on building?*

Johnson: We want to focus on three types:

• Original cloud data centers close to metro areas. Referred to as core data centers, they traditionally host websites and provide cloud services.

• AI data centers, which are geographically unconstrained. These data centers do not necessarily have latency concerns. They can operate anywhere that is served by the appropriate power and other related infrastructure.

• Edge data centers, which are smaller 10,000- to 50,000-square-foot data centers. These are intended for the Big 5 to extend their reach without building full regions. An edge building can be a physical presence in a small market, which brings a more complete product offering closer to the users.

Development: *Why is the timing right for mission critical pursuits?*

Johnson: To allow the AI opportunity to play out, we need to build data centers. Certainly the money is being invested already. Will there be an oversupply later? Possibly, but we won't see it anytime soon.

Development: *How is Ryan dealing with these projects' sustainability challenges and requirements?*

Johnson: The Big 5 users each have individual sustainability goals and are committed to finding solutions for achieving net-zero power and net-positive water. Ryan works closely with these partners to support their sustainability objectives, exploring opportunities early on and assessing potential impacts.

For instance, in our largest development project, we conducted a water study to identify sustainable water sources that do not harm aquifers. The study provided valuable information to potential users, including maintaining water usability that allows for recycling in irrigation or industrial applications.

Development: *How does Ryan create programmatic solutions that ensure consistency and incorporate lessons learned from previous projects?*

Johnson: The mission critical space is not like working on logistics facilities where the processes are roughly the same user to user. Each of the Big 5 has a unique approach to overall data center design, and every step in the process is like that. However, due to the low number of users, and the volume and demand, a programmatic approach per user works well.

Our clients have specific criteria for judging performance and how much innovation we bring to the project. For example, there were not enough local electricians available to service a project. So, we convinced a client to put all the electrical room gear on a skid and assemble it off-site to save on electrician hours on-site.

Development: *How do mission critical projects make a positive impact in communities?*

Johnson: The real estate projects have a very high dollar value, so even after economic incentives are given, the value is mainly in the revenue generated from taxing the asset. Data center jobs have a notoriously low head count, but the jobs themselves are high value and put those employees on a career track to even higher-value roles within the tech ecosystem. Another positive is that these projects don't require communities to construct new schools and roads. The things that are needed are very specific infrastructure items. Because of the low traffic volume, there is little impact on adjacent neighborhoods.

Development: *What does Ryan do for community outreach?*

Johnson: Our team prioritizes listening to and communicating with the community to effectively address their questions, needs and concerns. Education is crucial, as many people find the term "data center" unclear. We aim to clarify what a data center is in terms of its size, appearance and purpose while highlighting the economic benefits it brings. We want to answer important questions like, "What advantages does your presence bring to our community?"

We engage with city officials early and often, sharing our vision through visual site plans. We value their insights about sensitive areas and actively seek opportunities to develop beautiful projects. Our mission is to empower the community through knowledge, fostering a sense of partnership and possibility. ■

> "The mission critical space is not like working on logistics facilities where the processes are roughly the same user to user. Each of the Big 5 has a unique approach to overall data center design, and every step in the process is like that."
>
> *Todd Johnson*

Activating a Community to Thrive Beyond the 9-to-5

The Amp, a 5,000-person-capacity amphitheater that hosts concerts, festivals and other events, adds an element of experiential energy to The Bowl.

All images courtesy of Northwood

An infill rezoning project in Charlotte is **changing Ballantyne from a traditional office park to a mixed-use mecca.**

By Christina Thigpen, Northwood Office

AT A GLANCE

Ballantyne's density is being increased to turn it into a more urban, walkable environment.

Northwood engaged in a three-year rezoning process that allows for a mixed-use development district.

The Bowl at Ballantyne is Northwood's new retail and entertainment district.

Ballantyne, an upscale, 2,000-acre neighborhood in Charlotte, North Carolina, is recognized as one of the largest mixed-use communities in the Southeast. Developed on farmland in the early 1990s, primarily by The Bissell Companies, Ballantyne grew into a thriving community with features such as a golf course and a corporate park with more than 4 million square feet of office space.

With 17,000 employees working in the corporate park pre-pandemic and over 70,000 residents, Ballantyne didn't face growth challenges. What was missing, however, was a sense of connection that would encourage people to stay, engage and explore. So, in recent years, Ballantyne has been undergoing a monumental transformation aimed at redefining its future.

To become a great place, Ballantyne needed to develop a recognizable, coordinated and sustainable civic realm. The goal is to evolve the area from a 9-to-5 environment into a vibrant 24-hour community that is connected to neighboring areas while maintaining its own unique identity.

A New Vision

Northwood Investors, a global real estate investment and management firm, acquired Ballantyne from The Bissell Companies in March 2017 for $1.2 billion, making it the largest real estate transaction in Charlotte's history. Several months later, Northwood teamed with Boston-based land-planning firm Sasaki, locally based LandDesign (which had been involved with the master-plan project since its inception), and Cooper Carry on architecture and experiential graphic design to start working on its vision for the Ballantyne campus.

Northwood's master plan, Ballantyne Reimagined, aims to transform the surrounding area

An aerial view of the surroundings before vertical construction began on The Bowl at Ballantyne.

> “Our goal was to create a new standard for sense of place that makes life better and more fun. We have developed an activated area beyond the eight-hour workday that brings more options to Ballantyne.”
>
> *John Barton, president, Northwood Office*

from a traditional office park and public golf course into a more urban, walkable environment, creating a vibrant community destination that benefits office workers, guests and visitors alike. The design seeks to maximize the use of an underutilized site by increasing its density and enhancing connections to the surrounding natural landscape.

“Our goal was to create a new standard for sense of place that makes life better and more fun,” said **John Barton**, president of Northwood Office, Northwood Investors’ office platform. “We have developed an activated area beyond the eight-hour workday that brings more options to Ballantyne.”

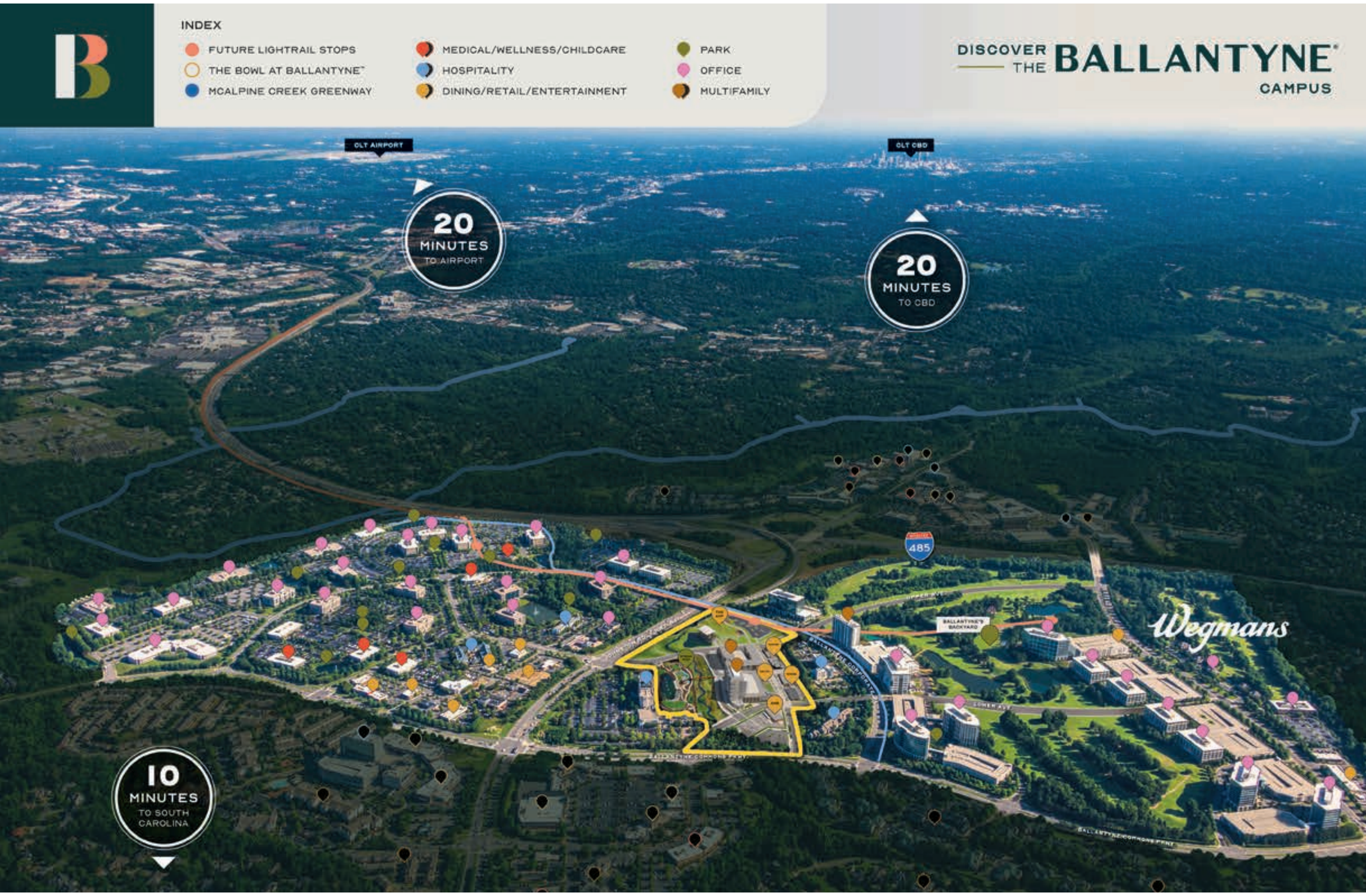
Under its previous zoning, the 535-acre Ballantyne Corporate Park was permitted to have retail only on the first floor of office buildings, and no multifamily was allowed. Northwood worked collaboratively with the city of Charlotte and Mecklenburg County on a three-year rezoning process allowing for a mixed-use development district. The rezoning received approval over a Zoom call amid the COVID-19 pandemic lockdown in June 2020. “It was said to be the largest and most complex infill rezoning in Charlotte’s history,” Barton noted.

Another important component was a more than 1,300-page traffic impact analysis required to ensure all aspects of the infrastructure would perform. The project team established a forward-thinking infrastructure system to accommodate long-term growth and the potential to evolve to meet future demand. Northwood invested $111 million in infrastructure, including the construction of two new main thoroughfares and improvements at more than 20 intersections. Infrastructure work began in February 2021.

With a full master plan on paper, Northwood worked strategically to place major roads near future development pads. “Our flexible infrastructure opens up future development parcels for intentional growth,” said **Clifton Coble**, senior vice president of development at Northwood Office.

The initial phase of Ballantyne Reimagined is primarily complete. It includes 600 multifamily residential units, a 5,000-person-capacity amphitheater, the 6.4-acre Stream Park, 70,000 square feet of retail, and a 300,000-square-foot office building — adjacent to existing office buildings — that is 99% leased.

“Northwood’s vision is to create a better quality of life and experience for current and



An overview of the Ballantyne campus, with The Bowl at Ballantyne outlined in yellow at the center.

future employees, residents, guests and visitors to Ballantyne," said **Fred Merrill**, principal at Sasaki.

Where Urban Meets Garden

Ballantyne Reimagined implements a "where urban meets garden" design strategy. This creates a walkable, urban destination that maintains a strong connection to the surrounding natural landscape.

"We were inspired by the existing network of golf cart paths and trails, mature trees and the vast expanse of surrounding nature to integrate the existing campus into a densified 18-hour, mixed-use environment," said **Jim Babinchak**, principal at Cooper Carry. "The resulting design is a harmonious balance of structure and nature."

Northwood has named its new retail and entertainment district "The Bowl at Ballantyne," paying homage to the previous owner's description of the topographical features of the former golf course. Northwood incorporated some of these conditions into The Bowl's design. For example, the amphitheater stage is at the lowest point of the former 18th hole's fairway, providing spectators with expansive vistas toward the former tee boxes. In addition, an existing golf course tunnel was retained and now provides pedestrians with easy access between Ballantyne Corporate Place and The Bowl.

The project team adopted a Main Street approach for the retail and dining structures, featuring vibrant storefronts and a diverse restaurant mix, enhanced by outdoor gathering spaces. Seven standalone retail buildings feature storefronts that spill out onto the sidewalk through alfresco outdoor seating, deep canopy overhangs and pop-up markets that encourage guests to linger. Configured into a walkable *woonerf* (a Dutch term meaning "living street"), the well-landscaped thoroughfare is dotted with opportunities for human interaction without vehicle interference.

Northwood is also developing Oro Ballantyne, a 26-story luxury apartment community under construction along Bowl Street, providing a front-row seat to all the action at The

BALLANTYNE BY THE NUMBERS

Size: 2,000 acres (Northwood owns/manages most of the 535 acres in the heart of Ballantyne)

Office: 4.5 million square feet

Retail: 70,000 square feet

Hotel: 588 keys

Multifamily: 568 units (Amounts reflect Northwood assets)

Within a 5-mile Radius:
Single family: 1,500 homes

Multifamily: 18,200 units

Townhomes: 1,600

An aerial view of The Bowl at Ballantyne, with The Amp in the foreground and Oro Ballantyne, the tallest residential tower in South Charlotte, in the background.

> "This is a first-of-its-kind development for South Charlotte, so we wanted to design for long-term resilience and functionality."
>
> *Kevin Roberts, associate principal, Cooper Carry*

Bowl and a defined sense of place. SK+I served as the architect for Oro, which is the tallest residential tower in South Charlotte. Move-ins are occurring throughout 2025.

At the center of The Bowl is an urban green space where people can gather in a natural environment. Rooftop dining decks and elevated terraces provide additional areas with views of the natural surroundings.

"This is a first-of-its-kind development for South Charlotte, so we wanted to design for long-term resilience and functionality," said **Kevin Roberts**, associate principal at Cooper Carry. "When the landscape is fully grown, this place will truly feel like walking through a garden, and we have introduced calming elements that align with that intention. The outdoor spaces are an extension of the retail and dining, with it all working together to create an enjoyable third place for the community."

The project team used a variety of new building materials and innovative systems. Elevated finishes help differentiate the project, including terra-cotta facades, exposed aggregate sidewalks, custom precast concrete and Ipe benches, granite curbs and paver driving surfaces. Apartment views look onto two retail jewel boxes that sandwich the central urban green space. The project team installed green roofs composed of living shrubs to soften the appearance of the hoods and other restaurant rooftop equipment.

Throughout the construction process, 300,000 cubic yards of dirt were excavated and moved. The project consists of nearly 100,000 new plantings. The trees throughout The Bowl were hand-selected by the project team and professionally pruned to ensure an aesthetically pleasing, consistent shape that did not interfere with the visibility of the retail tenants.

LandDesign further enhanced the Sasaki master plan and provided civil engineering and landscape architecture services. Native plant species were used to promote local biodiversity and minimize ongoing maintenance costs.

Priority was placed on offering outdoor gathering places for retail and dining structures so that guests would be encouraged to linger. Shown here is the Olde Mecklenburg Brewery.

GREEN SPACE GALORE

Ballantyne's 100-plus acres of green space have always been a differentiator for the area, so the project team took intentional steps to activate the campus' natural beauty.

With an existing 20 miles of walking paths and bike lanes throughout Ballantyne, the project extended the commitment to green space with a greenway connection, Stream Park and an amphitheater. Public art, tree canopies, water features and street furniture, complemented by community programming, contribute to the experience.

"We gave careful attention to how these new parks could be programmed and designed to be used by everyone, whether living or visiting here," said **Rhett Crocker**, president of LandDesign.

The project team quickly learned that the pandemic had increased the public's desire to be outdoors and adapted The Bowl's design accordingly, incorporating 100,000 plantings, enhancing Stream Park, expanding the size of The Amp and ensuring that The Bowl's restaurants had ample outdoor seating, which is a defining mark for the space.

"We definitely leaned in more to the outdoor experience," said **John Barton**, president of Northwood Office. "While green space has always been a hallmark for Ballantyne, we amplified what we were thinking about, doing a stream park, an amphitheater, an extended trail network and other signature green spaces. We did more of it, and we did it even better."

A Successful Public-Private Partnership

With significant infrastructure investments to build roads, sidewalks and other transportation-related improvements, Ballantyne Reimagined exemplifies a successful public-private partnership. Northwood partnered with the city of Charlotte and Mecklenburg County on two grants. The first was for $17.5 million with the city's Capital Investment Plan, a bond subject to voter approval. In addition, the city and county participated in a tax increment grant for $25 million.

Northwood intentionally formed relationships with local leaders to create community benefit beyond Ballantyne. Establishing alignment among all stakeholders to find alternative funding solutions for greenway connectivity, infrastructure

Popular retail concepts line Bowl Street. In the background are an office building, Towerview (the first multifamily offering on campus), and a portion of the Northwood-owned Aloft Charlotte Ballantyne hotel.

improvement and future transit linkages was essential to the project's success. Northwood funded the infrastructure portion of the project and financed the retail and the residential tower, Oro Ballantyne, through U.S. Bank and TD Bank.

Filling Up The Bowl

Leasing activity for The Bowl has been strong. Northwood previously owned Blakeney, a major mixed-use retail project in close proximity to Ballantyne, before selling it in 2021. Based on that experience, "we knew there was a hole in South Charlotte and a strong demand for better food and beverage and service offerings," said **Ward Kampf**, president of Northwood Retail. "Because of the size of the Ballantyne campus, we felt that we could attract impactful drivers if we had the right content and context. We knew the design and scale were spot-on and that we needed to lead with authoritative food. National brands always recognize great markets and open in hot areas, and with Charlotte being such a desired market, Flower Child, Postino and North Italia were natural early fits.

"What surprised us most was the local interest and the incredibly powerful response. At Northwood Retail, we feel like local concepts contribute to 80% of the character of a project, so we're grateful to have the likes of chef **Jim Noble** of Noble Food and Pursuits and **John Marrino** from The Olde Mecklenburg Brewery put their stamp on The Bowl at Ballantyne. As a result of the overall development and the leasing traction, we've also landed a deal for a Wegmans supermarket adjacent to The Bowl. Wegmans is so coveted — everyone in the country is chasing them."

Northwood is exceeding absorption and rent levels, with more demand than space available in phase one of the project.

"Because of the mix of uses — hotels, office space, residential and retail, plus The Amp [the outdoor amphitheater that hosts concerts, festivals and

“Because of the mix of uses — hotels, office space, residential and retail, plus The Amp — Ballantyne is evolving into a small city.”

Ward Kampf, president, Northwood Retail

other events] — Ballantyne is evolving into a small city,” Kampf said. “We anchored the project with a brewery [Olde Mecklenburg], and we knew we were looking for operators to fill an 18-hour day — food and beverage, fitness, coffee, services, places for morning workouts, salon blowouts, lunch meetings, happy hours, and dinners and drinks — that catered to the residents, workers, families and hotel guests, day and night. … The Bowl has opened strong, and we’ve brought in a wide range of uses matching our merchandising vision,” which includes a mix of national, regional and local vendors.

A Mixed-use Model

Ballantyne is creating a new community that brings together what is often separated — homes, workplaces, daily necessities and places to unwind.

With most of Ballantyne Reimagined’s first phase complete, the development has entitlements for up to 1,000 multifamily units, 300,000 square feet of retail within the campus and 200 hotel rooms. The second phase, which is years out, could include an additional 1,000 multifamily units, 300 townhomes and 400,000 square feet of office. A third phase could occur with significant infrastructure improvements, and three potential light rail stations have been designated throughout the campus.

“What makes Ballantyne stand out is how it brings everything into one seamless experience,” Merrill said. “It creates a strong sense of place where everything feels connected, convenient and easy to access.” ■

Christina Thigpen is senior vice president of marketing and communications at Northwood Office.

THE BOWL AT BALLANTYNE PROJECT SUMMARY

Project Location
Ballantyne, Charlotte, North Carolina

Type of Site
Suburban

Development Type
Ground Up/New Development, Mixed Use

Transportation Modes
Car, Pedestrian

Mix of Uses
Office: 400,000 SF entitled to be built in future phases
Retail/Restaurant: 70,000 SF under construction, entitled for 230,000 SF
Recreational: Stream Park (6 acres)
Residential: 356 units/26-story tower under construction, entitled for 1,534 units
Common Space: Entitled for 100 acres
Other: 5,000-person amphitheater

Parking
Structured: 75 retail/550 residential
Surface: 684 retail

Site Dimensions
Total Acreage: The Bowl (approximately 40 acres)/Total impacted via rezoning (535 acres)

Retail Tenants
Arrow Barbers, Bossy Beulah’s, Drybar, Flower Child, Fly Kid Fly, LaserAway, Harriet’s Hamburgers, Honeysuckle Gelato, North Italia, Postino, Roosters, Solidcore

Retail Rents and Lease Terms
Triple net lease

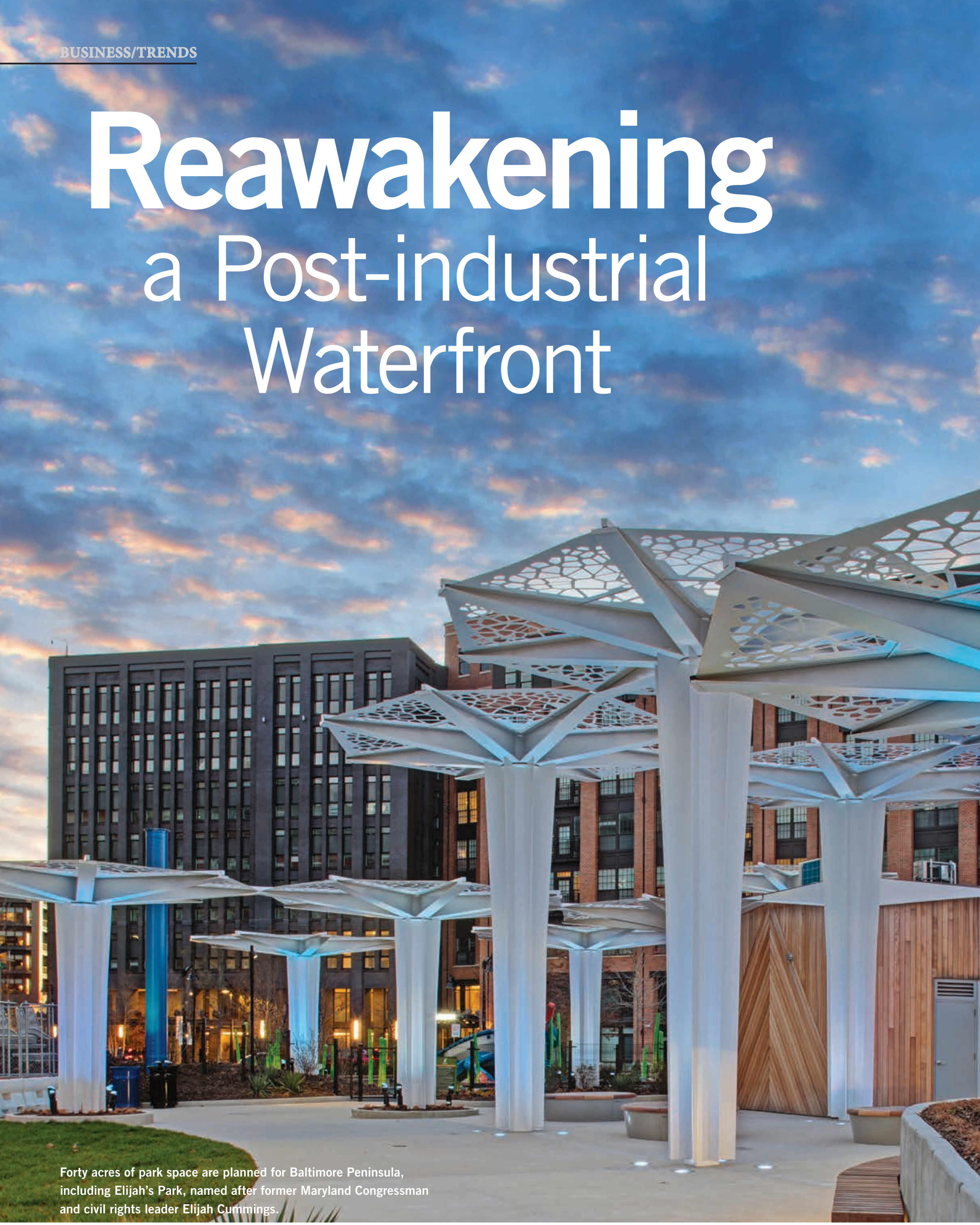
Development Team
Developer: Northwood Development
Project Architect: Cooper Carry (retail), SK&I Architecture (residential), LandDesign (civil/landscape architecture)
Interiors Architect: SK&I (residential)
General Contractor: Rodgers Builders (retail and infrastructure), Samet (residential)
Leasing Agents: Northwood Retail and Endeavor (retail), Bozzuto (residential)

Financial Partners
Municipal Funds or Tax Incentives: TIG and CIP
Construction Loan: U.S. Bank and TD Bank

Timeline
Land Acquisition: 2017
Submitted Initial Plans: Rezoning started 2021, approved 2022
Phase I Completed: December 2025
Project Completed: TBD

Development Cost Information
Acquisition Cost: $1.2 billion
Phase I Costs: $111 million (infrastructure)
Phase II Costs: TBD
Total Project Costs: TBD

Reawakening a Post-industrial Waterfront



Forty acres of park space are planned for Baltimore Peninsula, including Elijah's Park, named after former Maryland Congressman and civil rights leader Elijah Cummings.

Alain Jaramillo Photography

A peninsula in South Baltimore that sat largely unused for decades **is being transformed into a master-planned, mixed-use neighborhood.**

By Anthony Paletta

AT A GLANCE

The approved master plan for Baltimore Peninsula calls for 14 million square feet of development.

The former industrial site is being redeveloped for office, residential, hospitality and retail components.

Under Armour recently moved its headquarters to a new complex on-site.

Baltimore has experienced decades of intensive growth along its waterfront, transforming many former industrial sites into mixed-use developments. Notable examples include Harbor East, which spans 20 acres, and Harbor Point, covering 27 acres. With initial development around Baltimore's Inner Harbor having consumed virtually all vacant former industrial sites of any size along its main harbor channel, developers have turned their attention to other shores around Charm City.

Directly south of the city's historic Federal Hill neighborhood, a 235-acre site on the middle branch of the Patapsco River had sat largely unused since the mid-1970s. The site is being transformed into Baltimore Peninsula, a $5.5 billion collaboration between Under Armour founder **Kevin Plank's** Sagamore Ventures, MAG Partners and MacFarlane Partners, with investment from Goldman Sachs' Urban Investment Group.

The idea originated with Plank, who through Sagamore Ventures owned a considerable majority of the site. The project's development was initially charted by Bethesda, Maryland-based Weller Development under the name of Port Covington. This involved a few early hopes that didn't pan out, including developing a biotech hub and a cybersecurity cluster, and trying to attract Amazon's HQ2, which ultimately located approximately 90 minutes south in Virginia. In November 2022, Weller Development was replaced by MAG Partners, a Women's Business Enterprise-certified real estate development company founded by **Mary Anne Gilmartin**, and San Francisco-based MacFarlane Partners. The current state of the project now opening was substantively the result of Weller's planning.

As the first phase of an approved master plan calling for more than 14 million square feet of development, the project team has thus far constructed over 1.2 million square feet of office space, more than 400 residential units, an extended-stay hotel, a variety of retail and dining options, and 40 acres of waterfront parks. Construction on these elements began in May 2019, with more than $1 billion invested thus far.

Office leasing quickly picked up under the new development team. From December 2022 to December 2023, the development accounted for 30% of total new office leasing in the city despite accounting for just 1.8% of the city's office space. The development's website claims a 40-minute commute reduction for workers from surrounding counties compared with office locations in the Inner Harbor. In addition, its residential offerings are now over 90% leased.

Seamus Payne

The first phase of Baltimore Peninsula includes over 1.2 million square feet of office space, more than 400 residential units, and a mix of local and national retail and dining options.

From Industrial Past to Mixed-use Promise

The site contained early fortifications built to provide support for Fort McHenry during the War of 1812. It then hosted an assortment of industrial uses in the 19th century: a brickyard, a distillery and even a short-lived facility for building "cigar boat" steamships. Eventually it became a terminal for the Western Maryland Railroad. At its peak the site contained 55 miles of track, dock facilities and locomotive repair shops within a footprint of more than 180 acres. By 1929, according to **Harold A. Williams**' *The Western Maryland Railway Story: A Chronicle of the First Century, 1852-1952*, the terminal could "store over 100,000 tons of freight, and the docks could accommodate seven ocean vessels."

The railroad was acquired by the predecessor to CSX in 1973 and soon entirely idled. Over subsequent decades, the site became the focus of a variety of civic hopes, none of which materialized. At one point, it was considered as the site for a new baseball stadium before Oriole Park at Camden Yards was built downtown, just west of the Inner Harbor. There were a few piecemeal developments, including a building and printing press for the Baltimore Sun newspaper as well as a strip mall containing a Sam's Club and Walmart, but most of the site remained vacant.

Sagamore Ventures began acquiring land for the present development in 2014, assembling 26 parcels.

In 2016, Baltimore approved the project, then known as Port Covington, with a $660 million tax increment financing arrangement, the largest ever awarded in that city. The deal involved a community benefits agreement and memorandum of understanding that included $39 million in direct benefits for six communities around the development and $55 million in citywide benefits spanning workforce development programs, education, recreational facility commitments and more. The agreement specified a 20% affordable housing requirement, a hiring requirement of 50% for Baltimore city residents, and additional use of minority-owned and women-owned business enterprises.

The site's rezoning from industrial uses permitted a wide range of mixed-use construction, with 100-foot height restrictions along the waterfront to preserve view sheds and taller construction permissible slightly inland.

The site required a substantial amount of environmental mitigation, a process begun in 2016 and ending in 2023. "We have a unique, controlled soil management plan that allows for soils to be transferred between various properties," explained **Jennifer Hearn**, director of development at MAG Partners. Impacted soils were permitted to be transferred to lower depths on the site, capped, and then covered with clean fill.

In September 2017, Goldman Sachs' Urban Investment Group added an equity investment of $233 million.

The 5-acre Sagamore Spirit waterfront distillery, Rye Street Tavern and Rye Street Park are among the gathering spaces for Baltimore Peninsula residents and visitors.

Anna Spiegel

When MAG Partners and MacFarlane Partners took over the project in 2022, they invested an undisclosed amount and changed the name from Port Covington to Baltimore Peninsula.

Planning a Neighborhood From Scratch

The developers were intent on a mixed-use development from the start, and their explicit and continued intention, Hearn said, was "building a neighborhood" on a site that had previously seen only piecemeal, automobile-dependent development. Baltimore Peninsula is just south of traditionally dense Baltimore rowhouse neighborhoods but separated by Interstate 95, railroad tracks, and CSX and Maryland Transit Authority rail yards.

Hearn said the logic behind planning the initial phase of the development was self-evident. "We have 2.5 miles of waterfront access," she pointed out. "It's really rare in the city to have public access to such a large amount, so we started on the waterfront." The project team straightened and expanded a previously winding main artery, Cromwell Street, into a principal boulevard and laid out a grid of streets designed to provide a framework for pedestrian-friendly urbanism. Infrastructure for about 15 city blocks was constructed as part of the first phase and completed in early 2023, with more to come.

A linchpin of the development — though not formally a part of Baltimore Peninsula — is a new headquarters for Plank's Under Armour sports apparel and performance company. The company recently moved its headquarters from nearby Locust Point to a new complex on-site. It includes a five-story, 280,00-square-foot mass timber building designed by Gensler, an NCAA-regulation track facility and multisport field with seating for 1,400 people, and a flagship store. The former Walmart and Sam's Club buildings at the location were converted into office and product testing spaces. The headquarters complex, located on 40 acres of land, will accommodate over 1,600 employees.

The developers' intention for Baltimore Peninsula was to build a mix of uses simultaneously, combining office, residential and commercial uses in its first phase.

Morris Adjmi Architects designed Rye Street Market, a multibuilding complex described as "the town square of Baltimore Peninsula." It contains 228,000 square feet of office space and 29,230 square feet of retail space. The office space is nearly entirely leased by a variety of tenants, including H. Chambers Company, an architecture and design company; Longeviti Neuro Solutions; Volo Sports; the American headquarters of Italian spirits company Disarrono; One Bar Mining; the Baltimore Ravens (whose NFL stadium is about a mile away); and additional space for Sagamore Ventures.

Morris Adjmi Architects was given creative freedom to craft a pedestrian-friendly retail and

> "We have 2.5 miles of waterfront access. It's really rare in the city to have public access to such a large amount, so we started on the waterfront."
>
> *Jennifer Hearn, director of development, MAG Partners*

Damian Rintelmann

Sagamore Ventures began acquiring land for the Baltimore Peninsula development in 2014.

office core for the complex. The firm designed four buildings divided by alleyways (one of which slices diagonally through the site) surrounding a central courtyard. Three of the buildings feature corrugated metal facades, and the largest is clad in brick. Principal **Morris Adjmi** explained, "We took a contextual approach to the facade materials, researching the built environment of Baltimore and its waterfront and casting a particular focus on the shipping industry and naval buildings. The cross-break metal panels and corrugated facades speak to this naval architecture, while the brick building and arches form a backdrop that communicates with the striking historical architecture of the city."

CFG Bank, the largest bank in Baltimore, has moved its headquarters into another first-phase building, 2455 House Street. Designed by MGMA Design, the seven-story structure contains another 212,000 square feet of office space, 18,711 square feet of retail, and an amenity penthouse with outdoor space. The building features virtually column-free floor plates.

Retail, Hospitality and Residential

Rye Street Tavern and Sagamore Spirit distillery were opened in new buildings along the waterfront in spring 2017. Retail space, including a variety of restaurants, is included in other buildings along the development's principal east-west artery, Cromwell Street.

In July 2024, the development also added a Roost Hotel, a hospitality element that is new to the city. Roost, a Philadelphia-based hotel company, operates eight extended-stay luxury hotels in several East Coast and Midwestern locations. This is one of two new-build locations so far for the company, designed by Baltimore's Hord Coplan Macht. **Chris Allen**, Roost's director of sales, explained, "The concept is known for bridging the boutique hotel experience with apartment-style living. We are the first high-design, extended-stay hotel in the Baltimore market." Roost Baltimore includes 81 hotel rooms and 40 apartment units, with the latter branded as 2460 Terrapin.

Hord Coplan Macht also designed one of two residential structures built to date in Baltimore Peninsula. Rye House contains 200 market-rate and 54 affordable units. Also open is Torti Gallas + Partners' 250 Mission, which features 127 market-rate and 35 affordable apartment units. Occupancy began in April 2023.

Hearn said the choice to not cluster affordable housing in one building was deliberate and "is something we hope is a model throughout future development sites."

She also extolled the benefits of brownfield residential construction: "We're fortunate in that we're a site where we're not displacing anybody because nobody lives there. We're just attracting new residents, new tenants."

The 235-acre redevelopment project was envisioned by Under Armour founder Kevin Plank to turn a former industrial port into an economic engine for Baltimore through creation of an activated neighborhood.

Seamus Payne

Connecting the Peninsula

Baltimore Peninsula was planned out with complete streets from the start, including multiple bike lanes. These traits will continue in future gridding, most notably around a future boulevard, Hart Street, that will connect directly to I-95. The city plans to make pedestrian improvements to the existing Hanover Street bridge over I-95 and linking to downtown, and another pedestrian bridge is planned to span the highway along Charles Street to link Baltimore Peninsula directly to neighborhoods to the north.

The Baltimore Yacht Basin Marina and one working pier are currently on-site, but the project team has hopes of additional pier renovations and increased aquatic accessibility for everything from fishing to water taxi service. Sagamore Ventures acquired Harbor Boating, the company that operates Baltimore's water taxi services, in 2016 and means to expand its operations, although these plans have not yet been finalized. Kayak launches have already been placed.

What the Future Holds

The next phase for the site is still to be determined, but there is ample additional space available, with only 1.2 million square feet of a potential 14 million square feet developed.

A few likely candidates for use are already present, as a handful of older structures remain on-site at Baltimore Peninsula. These include the idled historic Gould Street power station and a former concrete plant. The project team would ideally like to identify some type of adaptive reuse for the power station. "We would love to see it in some sort of civic use," Hearn said. A return to power generation is also conceivable, as the plant stopped generation only in 2019. As for the concrete plant, the project team is considering potential uses as an entertainment venue or a beer garden.

Hearn said the project team intends to develop space for both larger and smaller office tenants. The team is also eager to draw leases from beyond Baltimore. "We don't want to just relocate tenants from the central business district," Hearn said. "We'd like to bring in tenants from outside of the city."

In terms of retail and amenities, the project team aspires to attract a mix of local and national tenants. "We are certainly looking for more entertainment uses and possibly a stadium," Hearn said. Baltimore Peninsula has been mentioned as a potential location for a minor league multiuse soccer stadium affiliated with D.C. United's Major League Soccer franchise. ■

Anthony Paletta is a freelance writer living in New York City.

MAKING ROOM TO PLAY

Baltimore Peninsula has planned 40 acres of park space for the development and has opened several parks thus far. Chicago-based landscape architecture firm Hoerr Schaudt adapted different strategies for each. The waterfront Rye Street Park, fronted by the Sagamore Spirit distillery and Rye Street Tavern, is intended as a gathering space, largely consisting of hardscape. **Nick Fobes**, a partner at Hoerr Schaudt explained, "We were trying to take cues from old European cobblestone plazas while creating some relief and providing greenspace with planting beds and three large sycamores."

Elijah's Park, named after former Maryland Congressman and civil rights leader **Elijah Cummings**, contains a 4-by-8-foot mosaic inspired by the Black Lives Matter movement and designed by high school students at the Choice Program at the University of Maryland, Baltimore County under the supervision of artist **Carien Quiroga**. The park also includes an aquatic-themed playground featuring a Baltimore blue crab climbing structure and slide. Pergolas are intended to eventually support climbing vines. A large lawn serves as an active play space, concealing sewerage beneath.

Other recent additions at Baltimore Peninsula include Volo Sports, a community sports organization that is opening Club Volo, a venue that hosts beach volleyball courts, pickleball courts, bocce, cornhole, and fields for kickball, soccer and flag football.

Electricity Limits Could Stifle Future Development

Rapidly growing demand has magnified the urgent need for new energy policies and investment.

By Aquiles Suarez

Commercial real estate developers are accustomed to facing hurdles created by government policy — high taxes, high interest rates and credit crunches, lengthy environmental reviews and other project delays. But another emerging challenge, particularly for industrial developers, is a lack of electricity. The reasons for concern are becoming clearer as the United States continues its shift to a more electrified economy.

imaginima via iStock/Getty Images Plus

A Surge in Demand

Despite the United States' population and economic growth, national electricity demand has held steady for decades. Over the next five years, however, the U.S. is set to experience a surge in power demand not seen in a generation, from the current 4,000 terawatt hours (TWh) per year to 4,500 TWh per year, according to energy consulting firm Rystand Energy. (A terawatt is equal to 1 trillion watts.) This is due to increased electrification across various sectors of the nation's economy.

The demand surge is being driven by rapid adoption of artificial intelligence and the need for data centers, an increase in the number of electric vehicles and required charging stations, and the anticipated reshoring and onshoring of major manufacturing facilities.

Widespread use of AI is guaranteed to spur much of the anticipated need on its own. According to a 2024 Goldman Sachs article, a typical ChatGPT query requires nearly 10 times as much electricity as a Google search. The same article projects that the energy needed by data centers will more than double in the near future, increasing from 3% of all the energy used in the U.S. in 2022 to 8% by 2030.

Electrification efforts across jurisdictions and industries are also contributing to this economic transformation. Many states and local jurisdictions (Colorado and Denver, for example) are, in effect, mandating more electricity usage through policy choices such as banning HVAC systems that use natural gas. Whether through sincere desire, for public relations purposes or both, many companies are trying to electrify their operations to lower their carbon footprints. Ironically, in Texas, some oil companies are moving to electrify their drilling operations as a means of decreasing their own carbon footprints.

Power Is Everything

In the famous "failure is not an option" scene from the movie "Apollo 13," a roomful of NASA officials argue over the best strategy to bring back the endangered crew. NASA electrical engineer **John Aaron** (played by **Loren Dean**) understands that the stranded astronauts will not have enough electricity at their current rate of use to return safely to Earth. Fighting to get the NASA officials' attention, he shouts, "We need to talk about power. Guys, power is everything. Without power, they don't talk to us, they don't correct their trajectory. … We have to turn everything off. Now!"

While perhaps not as dramatic, the point is similar in the case of electricity and the future development of data centers, manufacturing plants, warehouses, industrial centers and major projects of any kind. Absent the guarantee that sufficient electricity will be present, a project is not viable.

That is why NAIOP has made energy and the future availability of electricity a top legislative and regulatory priority in its federal advocacy on Capitol Hill in 2025. To ensure adequate energy and electricity for future commercial real estate development, changes are needed in the policy governing energy generation, transmission, and distribution. Additional federal investment to modernize the electrical grid is also necessary.

New Approaches Are Needed

For years, disagreements related to climate change and fossil fuels have stymied legislative and regulatory changes to improve the nation's grid infrastructure. Environmental advocates largely oppose measures that might delay the total elimination of coal, oil and natural gas. Such measures include building pipelines or connecting new fossil-fuel-based energy generation projects to the electrical grid. Alternatively, advocates who favor an "all of the above" energy policy will not support measures that specifically exclude certain energy sources or favor only renewable energy.

That dynamic was tolerable as long as the overall demand for electricity remained relatively stable. With demand quickly increasing, however, the status quo is clearly untenable. Apart from the type of energy source being used — fossil fuel or renewable — it takes far too long for power generators to connect new facilities to the grid. At the end of 2023, a backlog existed of nearly 12,000 power generation projects seeking to connect to the grid, according to the Federal Energy Regulatory Commission.

Permitting reform legislation is critical to eliminating such delays. Legislation introduced in the last Congress would have shortened federal permitting timelines and reformed litigation procedures that unnecessarily delayed energy projects, but it failed to pass either chamber before the lame-duck Congress ended. Sponsors of the legislation had hoped to include permitting reform provisions in a large filibuster-proof tax and spending bill. However, budget

> The energy needed by data centers will more than double in the near future, increasing from 3% of all the energy used in the U.S. in 2022 to 8% by 2030.

rules prohibit language that is clearly policy and not strictly budget or tax related. Passing permitting reform legislation will continue to be a top issue.

Regional coordination and cooperation by utilities and local jurisdictions on major transmission projects need to increase. The most impactful projects often cover multiple jurisdictions. Multiple planning and siting processes can be complicated and time-consuming. Transmission infrastructure can take three to seven times longer to build than energy generation installations, and the economic benefits may not be equally shared. This creates a disincentive for utilities that must justify the costs of additional transmission capacity to their ratepayers. Congress should enact policies that enable utilities to pursue major transmission projects of strategic importance to the nation.

Finally, more federal investment in grid expansion and modernization is needed. The average age of U.S. electric grid infrastructure is second only to Europe. The policy approach should be comprehensive, emphasizing permitting reforms, increased regional cooperation and additional investment in the grid.

Commercial real estate projects are already being delayed for years, and planned developments are being scrapped because energy providers cannot guarantee electricity within reasonable time frames that would make pursuit of the projects economically viable. Congressional action is necessary to ensure adequate electrical capacity for the critical real estate and industrial development that support continued robust economic growth. ■

Aquiles Suarez is senior vice president for government affairs at NAIOP.

At the end of 2023, a backlog existed of nearly 12,000 power generation projects seeking to connect to the grid, according to the Federal Energy Regulatory Commission.

Save the Date for NAIOP's 2025 Powerhouse Events

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INDUSTRIAL REAL ESTATE

I.CON East

June 4-5
Jersey City, New Jersey
naiop.org/iconeast25

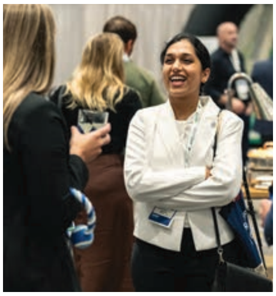
I.CON is the nation's largest gathering of industrial real estate professionals, focusing exclusively on the development, operation and expansion of industrial real estate.

CRE.Converge
NAIOP Annual Conference

CRE.Converge

Sept. 8-10
Toronto, Ontario
creconverge.org

CRE.Converge brings together 1,000+ developers, owners, investors, brokers and more from across North America to make deals, build connections and explore CRE's latest trends.

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INDUSTRIAL REAL ESTATE
COLD STORAGE

I.CON: Cold Storage

Oct. 6-7
Phoenix, Arizona
naiop.org/coldstorage25

I.CON: Cold Storage connects industrial real estate developers, owners, investors, asset managers, and more over two days focused exclusively on the cold storage sector.

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Nov. 3-4
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NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

Chapter Profile: NAIOP Indiana

Substantial investments are driving opportunities across multiple CRE sectors in the Hoosier State.

By Jonathan Rollins

Indiana's official state motto is "Crossroads of America." This geographic advantage, with proximity to major markets and a significant portion of the U.S. population, is a boon to commercial real estate development in the state, said **Stephen Lindley**, the immediate past president of NAIOP Indiana (**Erin Shepherd** began her term as chapter president on Jan. 1).

"Indiana's location will maintain its position long term as an industrial and logistics hub offering multimodal transportation options, excellent highway access, a logistics-capable international airport that hosts the second-largest FedEx hub in the U.S., busy commercial ports along Lake Michigan and the Ohio River, and mature and growing rail options," said Lindley, vice president of development and Midwest market officer at Ambrose Property Group.

Lindley recently shared insights with Development on CRE trends in the state as well as NAIOP Indiana's efforts in the areas of advocacy and education.

Development: *What are the market conditions for member companies in your area?*

Lindley: The Indianapolis commercial real estate market is experiencing a wide array of opportunities and challenges across sectors. Industrial has faced a steadily increasing vacancy rate that topped 10% for the overall market due to a flurry of new construction starts from 2021-2023. Supply challenges are isolated mainly to bulk product — more than 400,000 square feet — where demand has softened, with smaller, rear-load product experiencing more balanced supply-demand dynamics. Office faces continued challenges, particularly in commoditized buildings lacking amenities and a downtown Indianapolis core that hasn't rebounded to pre-COVID levels. In contrast, Indy's top suburban office submarkets that offer walkability and are highly amenitized have quickly absorbed newly constructed Class A office space and are seeing significant rent growth. The multifamily sector remains robust, particularly in central Indiana, with high occupancy rates, rent growth that outpaced the national average, and a growing construction pipeline for new multifamily projects, particularly in its high-demand northside suburbs.

Development: *What challenges are you facing in either the business or regulatory climate in your area?*

Lindley: Indiana, at the state level, remains a friendly environment for business and real estate development, with favorable tax rates, a variety of state and local incentives, and a desire to continue to build on recent economic growth. Challenges tend to be primarily localized. For instance, some communities that appeared eager for additional industrial development have abruptly

> "Indy's top suburban office submarkets that offer walkability and are highly amenitized have quickly absorbed newly constructed Class A office space and are seeing significant rent growth."
>
> *Stephen Lindley, immediate past president, NAIOP Indiana*

Indianapolis International Airport is home to the second-largest FedEx hub in the United States, helping to boost Indiana's reputation as a logistics center.

kameraworld via iStock Editorial/Getty Images Plus

Among ongoing commercial developments in Indianapolis are a $4 billion medical campus and the $650 million redevelopment of Circle Centre Mall.

Ultima_Gaina via iStock/Getty Images Plus

shifted views on incentives such as tax abatement for speculative projects following the post-COVID boom and dramatic increase in supply. Some communities are expressing growing concern regarding utility management due in part to an uptick in high-tech manufacturing and data center interest. Some communities that have seen a substantial increase in development across various sectors are showing signs of increasing NIMBYism, while municipalities appear eager to see this kind of development continue for the time being. Housing supply and new residential development are on a good trajectory, but a gap remains between labor needs, labor availability and housing supply that will continue to present a challenging equation.

Development: *What are the big opportunities in commercial real estate in Indiana currently?*

Lindley: Indiana's growth and attractive business climate provide solid fundamentals for CRE despite the challenges affecting the industry nationwide. Multifamily is poised for continued growth due to the state's affordability and livability, significant suburban growth, the rising construction costs and limited inventory for single-family housing, and proximity to high-quality universities throughout central Indiana. Retail and industrial are also likely to see continued growth due to significant investments being made throughout Indiana — for example, IU Health's $4 billion medical campus in downtown Indianapolis, Eli Lilly's $13 billion investment in the LEAP Research and Innovation District in Lebanon, and Hendricks Commercial Properties' $650 million redevelopment of Circle Centre Mall in Indianapolis. These and other substantial investments in both downtown Indianapolis and the broader metropolitan statistical area (MSA) present opportunities across multiple CRE sectors.

Within the Indianapolis MSA, two industrial submarkets appear particularly poised for near-term growth. The southwest submarket benefits from its access to Interstate 70 and its proximity to the Indianapolis International Airport and the FedEx hub. The northwest submarket has advantages due to its access to I-65 and its access to the LEAP District. The Indiana Economic Development Corporation controls more than 9,000 acres in this area, targeting advanced manufacturing, ag-bioscience, defense, life sciences, and other industries.

Development: *What are some of your chapter's legislative priorities?*

Lindley: At the national level, preserving programs and policies that are beneficial to CRE, such as tax tools and rules, and fully funding programs incentivizing businesses that drive demand for CRE.

At the state level, maintaining Indiana's business-friendly tax and regulatory environment, and avoiding unnecessary legislative actions on unrelated topics that push businesses away from Indiana or cause them to reconsider commitments to locate here.

Development: *Education is an important part of NAIOP's mission. Has your chapter organized any education sessions recently?*

Lindley: In addition to social and networking events, NAIOP Indiana provides best-in-market educational programming. The quality of these events has been a key factor in our growth. The chapter will host at least one high-profile event in 2025 focusing on multifamily. Highlights from 2024 included:

• A panel of leading office and industrial brokers offered a comprehensive outlook on market trends and insights into what is driving leasing decisions for office and industrial tenants.

• NAIOP Indiana partners annually with a leading Indiana incentive consultant to brief members on current trends and changes in incentives and local community sentiment surrounding incentives, as well as to provide a political and legislative update on factors that could affect incentives.

• We offered Developing Leaders (DLs) an opportunity to meet and speak with subject matter experts in law, title insurance, construction, finance/tax, debt funding and limited partner funding. This event offered current DLs and DL prospects a chance to ask questions in a safe environment that doubled as an opportunity to grow professional networks.

• NAIOP Indiana proudly hosts its annual University Challenge where teams compete to deliver the best redevelopment plan for a board-selected case study property. The event helps future real estate professionals pursue their passion for CRE while offering a real-world testing environment and connects our members to the people who are likely to be the next generation of industry leaders.

• Our first "State of the Market" marquee event featured a macroeconomic overview from a leading national/international economist. In addition, Indiana-specific panels composed of leading brokers and developers specializing in multifamily, office and industrial assets offered their insights concerning Indiana and the broader Midwest markets in which they and their teams operate.

"The [University Challenge] event helps future real estate professionals pursue their passion for CRE while offering a real-world testing environment and connects our members to the people who are likely to be the next generation of industry leaders."

Stephen Lindley

Development: *What is your chapter doing to cultivate the next generation of leaders in the commercial real estate industry?*

Lindley: NAIOP Indiana is committed to helping cultivate the next generation of CRE leaders and creating a place for them in the existing CRE community. The chapter provides continuous support to the Developing Leaders Program and has a dedicated committee to serve DL needs. The committee organizes networking opportunities and puts on one marquee event specific to DLs annually, connecting them with best-in-class CRE professionals. The chapter's many educational events each year also bring DLs together with seasoned professionals.

In 2025, the chapter will execute its plan of strategic outreach to Indiana universities to better expose future real estate professionals to what NAIOP Indiana offers. The chapter is working to establish and subsidize a student membership program for up to 20 students based on a competitive process. The intent is to engage future leaders early and provide them with visibility to NAIOP and the benefits it provides both professionally and personally within the CRE industry. ■

Jonathan Rollins is the managing editor of publications for NAIOP.

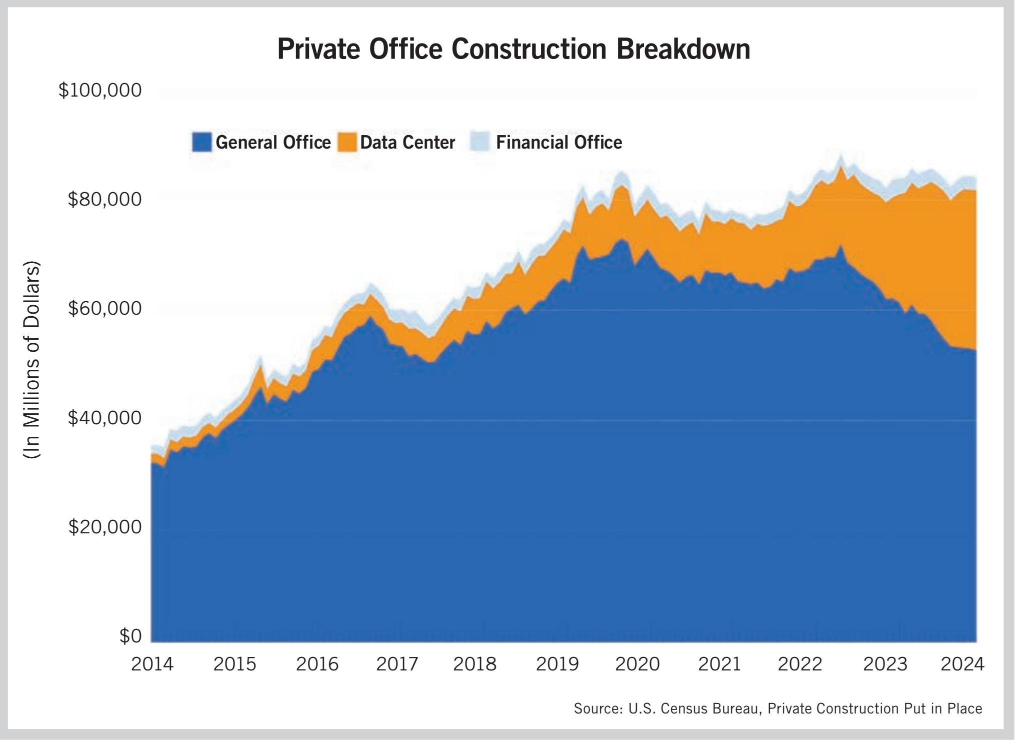
An Update on Commercial Real Estate's Contribution to the U.S. Economy

Data center and retail construction picked up as office and industrial activity slowed.

By Shawn Moura, Ph.D.

The NAIOP Research Foundation published the 2025 U.S. edition of the "Economic Impacts of Commercial Real Estate" report in January. The report revealed that commercial construction initiated in 2024 contributed $544.7 billion to U.S. gross domestic product and supported 2.7 million jobs. Both figures represent a second year of declines from when new commercial construction activity peaked in 2022 and contributed $696 billion to GDP. Commercial real estate development in 2024 nonetheless remained significantly elevated when compared with pre-pandemic activity, and the report expressed measured optimism that conditions for development will improve in 2025.

The report, authored by **Brian Lewandowski**, **Adam Illig**, **Ethan Street** and **Richard Wobbekind, Ph.D.**, draws from construction expenditure data provided by Dodge Construction Network (DCN), a NAIOP construction cost survey, and data published by the U.S. Census Bureau to estimate the economic contributions of new commercial building development. Per-square-foot expenditure data from the National Council of Real Estate Investment Fiduciaries (NCREIF) are compared with total size estimates provided by Newmark to estimate the contributions of existing building operations. An interactive map on the report website illustrates the contributions of new office, warehouse, industrial (manufacturing) and retail building development to the economies of the 50 states and the District of Columbia.



The decline in commercial real estate construction over the past two years has been mostly concentrated in manufacturing and warehousing, which both peaked in 2022 when the combined value of construction starts (hard costs) across the two industrial sectors totaled $163.3 billion. That figure declined to $105.2 billion in 2024 but remains 64.4% higher than the $64 billion value of combined manufacturing and warehousing starts in 2019. It remains to be seen whether recent reshoring-related manufacturing development will decline further in 2025, but slowing warehouse and distribution completions, moderate growth in leasing activity, and stabilizing industrial vacancy rates should present a more favorable environment for new warehousing and distribution projects.

Construction starts data from DCN indicate that new office sector projects in the 12 months ending in September 2024 were 8.5% higher than in 2023. However, most of this growth is likely attributable to data center projects.

Construction starts data from DCN indicate that new office sector projects in the 12 months ending in September 2024 were 8.5% higher than in 2023. However, most of this growth is likely attributable to data center projects, which DCN categorizes as office construction. The U.S. Census Bureau has also categorized data center projects as office construction in its historical project completions data, but beginning this year, it has begun to break out data center construction from financial office and general office construction. These new data, illustrated in the report and in the figure on page 92, reveal that data center project completions have

grown rapidly since the beginning of 2023 and are now equal to about half the construction value of non-data center office projects. Excluding data center projects, the construction value of private office project completions declined 10.2% in 2024 compared with 2023. On the bright side, demand for office space has recently shown signs of stabilizing, and decreased office construction completions should reduce upward pressure on vacancy rates.

Retail and entertainment construction also experienced growth, with the value of starts in the 12 months ending in September 2024 2.2% higher than the total for 2023. Department stores continue to struggle, but the sector overall has performed well. The report highlights growing demand from specialty retailers and smaller-format stores, including among large retailers such as Whole Foods, Target and Best Buy.

To download the report, visit naiop.org/research-foundation. ■

Shawn Moura, Ph.D., is senior research director at NAIOP.

NAIOP Resources

ASSOCIATION PROGRAMS AND SERVICES

NAIOP represents commercial real estate developers, owners and investors of office, industrial, retail, mixed-use and multifamily properties. It provides strong advocacy, education and business opportunities, and connects its members through a powerful North American network. For more information, visit naiop.org.

Programs and Services

NAIOP Membership For membership, information or changes to your membership record, contact membership@naiop.org.

Chapter Network NAIOP chapters provide local and regional education, networking and legislative affairs.

naiop.org NAIOP's central resource for industry and association news, programs, advocacy efforts and connections.

National Forums Special-interest groups that comprise senior-level NAIOP members in a non-competitive environment for exclusive networking and experience exchange.

Center for Education The principal learning resource for the commercial real estate development professional. Offerings include online, on-demand and live courses, plus two certificate programs.

Development Magazine Current and past issues are available online and are mobile-responsive for those who want to read Development magazine on-the-go.

NAIOP Research Foundation Research projects and initiatives to improve the understanding of the built environment and the challenges that lie ahead for individuals and organizations engaged in real estate development, investment and operations.

Career Center Online resource designed to help employers and job seekers find new commercial real estate job opportunities.

Business Development Industry Partners Enhance your company's presence as an industry partner by sponsoring, exhibiting or advertising.

Government Affairs Strong, effective support and guidance to create, protect and enhance development and property values. NAIOP's government affairs team is active on Capitol Hill, in state legislatures and in Canadian provinces.

Market Share Blog Insights on trends, CRE-related topics and professional development tips. Subscribe to weekly posts, interviews and news at blog.naiop.org.

Mobile Apps Take NAIOP wherever you go. Access the membership directory; find news, chapters and events; and connect on social media. ■

People and Companies

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**This is a listing of NAIOP members who are mentioned in this issue, as well as paid advertisers, which appear in bold.*

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Getting to Know 2025 Chair Alex Thomson

I invite our 21,000-plus members to join me in the goal of making NAIOP the premier organization for the commercial real estate industry. As a unified association, I am confident we can provide leadership and share best practices that advance our industry and the communities we serve.

I'm excited to lead NAIOP in 2025. To help you get to know me, Development magazine asked me to share my thoughts on our industry and association.

You are the first NAIOP chair from outside the U.S. What does that mean for our association and particularly for our Canadian chapters?
As an organization, NAIOP is open to new voices and fresh perspectives. Chairs have traditionally been from all sectors that represent our members — various primary property types, roles in the industry, markets and chapter sizes. Our four Canadian chapters are an important part of our organization. Heightening our voices in leadership roles demonstrates that NAIOP recognizes that our contributions are valuable and will benefit our organization as it grows and adapts.

What are your goals as 2025 chair?
I hope to build upon the open lines of communication between our chapters, visiting many and helping them share their experiences and deep knowledge. That kind of knowledge transfer can have a tremendous catalytic effect. For example, our Canadian chapters have followed the collective efforts of other chapters to coalesce on legislative issues affecting all of us, and we launched our federal advocacy efforts in 2023.

Why should NAIOP members be engaged legislatively?
Despite providing the critical spaces where people work, live and play, our industry is continually in the crosshairs for all manner of initiatives. We must be vigilant and advocate for issues that advance commercial real estate and the communities we serve.

We need to stay active and vocal, from the local level through the state/provincial levels and onto the federal levels in both the U.S. and Canada. As former NAIOP CEO **Thomas Bisacquino** used to quip, "If you aren't at the table, you are on the menu!"

What do you see as NAIOP's biggest benefits?
NAIOP membership provides a place to immediately connect, no matter the market you're in. Our chapter network allows you to meet local players and get to know the market. It also offers access to education and local advocacy.

Chapters provide information about market issues and are responsive to members locally, while NAIOP Corporate can turn that intel into knowledge that is disseminated through our research and content. An event like our annual Chapter Leadership and Legislative Retreat enables volunteers and staff to share local concerns and gain insights into how other chapters have handled similar challenges.

NAIOP has been integral in helping me remain current on what is "best in class" around the continent. Through our Research Foundation, webinars and podcasts, I stay informed on opportunities and trending topics. I've been able to demonstrate leadership, support change and share my passion for what we do with those joining the industry. Each time I attend a NAIOP conference, I leave knowing I have added new relationships and gained fresh insights. ■

Alex Thomson, Founder, Prevail Consultants
2025 NAIOP Chair

Alex Thomson

Let's Get Personal

Education: University of the West of Scotland studying land economics. That degree got me my skilled worker status in Canada and my first work visa, so it truly opened doors and borders.

Years in the industry: More than 20, including the first two in Scotland and the remaining in Canada.

Business: I launched Prevail Consultants in 2024, so it has been a busy year. I am still at the startup stage, which is very engaging.

Family: I'm the proud father of Micah, who is 19 and finishing up a gap year. He'll start university in the fall. The rest of my family lives in Scotland, so my closest friends in Canada are like an extra family to me.

Favorite out-of-the-office activity: I love the outdoors and try to get away to the mountains as often as possible to hike, bike and camp.

Best words of wisdom you ever received: When considering a project, I frequently quote my former colleague **Guy Scott**'s line: "It starts with a calculator." It's easy to get carried away with a development process, but if it cannot perform, you'd better know that on day one.

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